Tourism BC Study:

Airline Industry Restructuring Implications for B.C. Tourism

Presented to: Tourism British Columbia

Prepared By: InterVISTAS Consulting Inc.

Date: August 2000

Table of Contents

Executive Summary iv

1.0 Introduction 1
- 1.1 Industry Restructuring 1
- 1.2 Importance of Tourism to B.C. 1
- 1.3 Importance of Air Transport to Tourism 1
- 1.4 Purpose of this Report 1

2.0 The Merger Between AC and CAI 3
- 2.1 Introduction 3
- 2.2 The Air Canada-Canadian Merger 3
- 2.3 Industry Structure after the Merger 5
- 2.4 Dealing with the Newly Dominant Air Carrier 9

3.0 Initial Impact of Merger on Air Capacity and Fares 14
- 3.1 Air Capacity in British Columbia 14
- 3.2 Air Traffic Measures for British Columbia 28
- 3.3 Airfare Levels 31
- 3.4 Airline Routings 38

4.0 Future Changes 40
- 4.1 Introduction 40
- 4.2 Is the Worst Over? 40
- 4.3 Key Drivers of Future Changes 42
- 4.4 Future AC Changes 43
- 4.5 Future Competitive Offsets 45
- 4.6 Conclusion 52

5.0 Assessment 54
- 5.1 Introduction 54
- 5.2 Effects of Restructuring on Air Service Convenience, Fares and Competition in B.C. 54
- 5.3 Implications for B.C. Tourism 56
- 5.4 What is the Competitive Position of B.C.? 59
- 5.5 Effects on Airports 59

6.0 Policy and Action Options 60
- 6.1 Introduction 60
- 6.2 Monitor industry developments 60
- 6.3 Encourage AC Maintenance or Expansion of Service 61
- 6.4 Prevent Abuse by Dominant Carrier 61
- 6.5 Best Conditions for Continued Expansion of Air Canada and Independent Carriers 62
- 6.6 Network airline alternative 62
- 6.7 Foreign carrier access 64

Appendix A: Historical Development of the Airline Industry A1

Appendix B: The New AC Family B1

Appendix C: AC Competitors C1

Appendix D: Airline Alliances D1

Appendix E: Current Regulatory and Court Actions E1

101-00493/

Appendix F: Air Carriers Operating at YVR F1
Appendix G: Notes to Air Service Capacity Analysis G1
Appendix H: Air Service Capacity Tables H1
Appendix I: Air Service Capacity Tables For Key Inbound Markets and B.C. Airports I1
Appendix J: Airline Load Factor Data J1
Appendix K: Airfare Data Notes K1
Appendix L: Comparative Airfare Data L1
Appendix M: IATA BSP International Average Airfare Data M1
Appendix N: Glossary N1

List of Figures & Tables

Table 0-1: Air Capacity Inbound to B.C. (Excluding Intra-B.C.) August 1999 vs. 2000 vi
Table 0-2: Air Capacity for YVR Routes Intra-British Columbia (August 2000) vii
Figure 0-1 Summary of Capacity Changes Inbound to B.C. and YVR Intra B.C. Routes (August 1999 vs. August 2000) vii
Table 0-3: Air Capacity Changes From YVR to the B.C. Tourism Regions (1999 vs. 2000) viii
Figure 0-2: Change in AC and Total Domestic Seats Among the Canadian Provinces (August 1999 vs. August 2000) ix
Table 2-1: Air Canada's Significant Competitors in the Domestic Market (2000) 6
Figure 3-1: The YVR Air Services Network (2000) 15
Table 3-1: New & Enhanced YVR Air Services by the AC Carrier Family (April 2000) 16
Table 3-2: Air Capacity Inbound to B.C. (Excluding Intra-B.C.) August 1999 vs. 2000 18
Table 3-3: Air Capacity for YVR Routes Intra-British Columbia (August 2000) 19
Figure 3-2:Summary of Capacity Changes Inbound to B.C. and YVR Intra B.C. Routes (Aug 1999 vs. 2000) 20
Figure 3-3: Change in AC and Total Domestic Seats Among the Canadian Provinces (Aug 1999 vs. 2000) ... 22
Figure 3-4: British Columbia Tourism Regions with Main Provincial Airports 25
Table 3-4: Air Capacity Changes From YVR to the B.C. Tourism Regions (1999 vs. 2000) 26
Figure 3-5: YVR Total Passengers (January–April 1999 versus January–April 2000) 28
Figure 3-6: Victoria International Airport Total Passenger Traffic 29
Figure 3-7: Changes in Average Fares Sold in Canada to North American Destinations (January-May 1999 versus January-May 2000) 35
Table 3-5: Average Fares Sold in Canada to N American Destinations (Jan-May 1999 vs Jan-May 2000) 36
Figure 4-1: Seasonality of B.C.'s Air Seat Capacity 1999 40
Table 4-1: Current and Future Fleet Comparison 46
Figure 4-2: Fleet Seating and Capacity Available for Sale for Air Carriers 48
Figure 4-3: Over-the-Hub Cabotage 49
Figure 4-4: Tag-End Cabotage 50
Table B-1: The Air Canada Family After the Merger B2
Table D-1: Major Global Airline Alliances D3
Table D-2: Foreign Carriers Directly Serving Canadian Gateway Airports D4
Table D-3: Major Airline Alliances in Which Canadian Airlines Participated in 1999 ..... D5
Table I-1: Air Capacity for Key Markets Inbound to B. C. (August 1999 vs. August 2000) I2
Table I-2: Air Capacity Changes Inbound to Victoria Int'l Airport (1999 vs. 2000) I4
Table I-3: Air Capacity Changes Inbound to YVR (1999 vs. 2000) I5
Table I-4: Air Capacity Changes Inbound to Kelowna (1999 vs. 2000) I6
Table I-5: Air Capacity Changes Inbound to Cranbrook Airport from YVR (1999 vs. 2000) I6
Table I-6: Air Capacity Changes Inbound to Williams Lake Airport from YVR (1999 vs. 2000) I7
Table I-7: Air Capacity Changes Inbound to Smithers Airport from YVR (1999 vs. 2000) I7
Table J-1: Air Canada and Canadian Airlines Domestic Load Factors (YTD 2000) J2
Table J-2: Canadian Regional and WestJet System Load Factors (YTD 2000)* J2
Table L-1: Inbound AC Published Airfares to YVR (August 1999 versus August 2000) L2
Table L-2: Inbound AC Published Airfares to Kelowna (August 1999 versus August 2000) L3
Table L-3: Inbound AC Published Airfares to Smithers (August 1999 versus August 2000) L3
Table L-4: Add-on Airfare Comparisons - Gateway to Smithers (August 1999 versus August 2000) L4
Table L-5: Published AC Arbitraries from the Gateway to Kelowna Airports (August 1999 versus 2000) L4
Figure M-3: Changes in Average Fares Sold to African, Middle Eastern and Caribbean Markets M3

Executive Summary

On 21 December 1999, the Federal Minister of Transport announced that the Federal Government would allow Air Canada (AC) to acquire Canadian Airlines International (CAI). This ended several months of industry restructuring battles that were fought in the financial markets, the policy environment and the courts. However, for users of air transport and the tourism industry, this is only the beginning of *a multi-year process* of industry restructuring. A dominant airline with control of roughly 80% of domestic seat capacity and 90% of revenues at the time of merger has the potential to exercise market power. There are some benefits that could accrue from a large Canadian carrier emerging as a major force in the world airline industry, but a dominant carrier in domestic markets could potentially act to the detriment of the consumers and industries, such as tourism, that depend on air transportation.

Considering the critical role air transport plays in B.C. tourism, it is important to understand what is happening as a result of airline industry restructuring and what the implications will be for the tourism industry. There is much anecdotal evidence of the impacts, but the tourism industry must weigh factual evidence. In addition, it must look beyond the initial effects, both positive and negative, and anticipate further impacts. Some policy decisions governing Canada's airline industry are yet to be made (such as a new international air access policy); therefore, an opportunity exists for the tourism industry to influence some dimensions of the outcome.

The purpose of the report is to address these issues and to provide information to the B.C. tourism industry and government policy makers to assist them in responding to the effects of airline industry restructuring.

The Merger and Market Structure

As the merger begins, Air Canada has a dominant position in the Canadian airline industry. It has a fleet of 436 aircraft (283 of which are jets) versus 75 aircraft (70 of which are jets in service) operated by WestJet (WJ) and the charter carriers. Even with the ambitious fleet expansion plans by WJ and the charter carriers, AC will remain dominant for some time. The current fleet plans of the independent carriers for 2005, for example, will see a doubling to almost 150 aircraft, but this will still be a fraction of AC's size.

Air Canada's offer to purchase CAI was contingent upon a number of requirements. These included: no interference from AMR Corp. (the parent company of American Airlines), approval from government and regulatory agencies, no opposition from the Commissioner of Competition, access to non-public CAI financial information, and consented arrangements that provide for the resignation and appointment of directors of CAI. All of these requirements were eventually met, in part because AC agreed to a number of formal undertakings with the Commissioner of Competition to facilitate market entry and foster competition.

One significant undertaking was the divestiture of Canadian Regional Airlines (CRAL). CRAL's fleet of roughly 50 aircraft, many of which are regional jets, could offer both (a) significant competition in domestic markets, and (b) foreign carrier price competitive access beyond the gateways. While an independent CRAL would not replicate the Air Canada network in terms of scope and frequency, it might be able to provide a competitive choice for a number of Canadian communities.

The Federal Government introduced legislation (Bill C-26) to deal with some of the concerns associated with a dominant air carrier. It gives the Canada Transportation Agency (CTA) powers to regulate individual airfares (but only on complaint after 2002), and gives the Competition Bureau new temporary cease and desist powers to prevent anti-competitive actions by a dominant air carrier.

However, there are still some important gaps in terms of dealing with the effects of a dominant air carrier. These gaps include:

- The CTA has no powers to control the number of seats offered at various fare levels. Hence, even if the CTA prevents increases in discount airfares, a dominant carrier could reduce availability of discounted seats. Average prices would rise and the price sensitive tourism markets could be severely impacted.
- Foreign air carriers and other investors continue to be severely limited in their ability to invest in Canadian air carriers, thus constraining the potential for competition in domestic markets. As well, U.S. and other foreign air carriers continue to be excluded from Canadian domestic routes by the so-called *cabotage* prohibition.[1]
- Foreign air carriers competing with Air Canada have no mechanism by which they can ensure that they can access to beyond-the-gateway markets in Canada at charges reasonably similar to what they could obtain in 1998 and earlier.
- Canada's bilateral air services agreements continue to be generally restrictive. For example, the Vancouver International Airport Authority reports that only one-third of Canada's agreements allows foreign air carriers access to Vancouver. The federal Minister of Transport has indicated that he is unwilling to revise Canada's International Air Policy before 2002.

Initial Impact of the Merger on Air Capacity

Capacity inbound to B.C. This study used data from the June 1 schedule of the Official Airline Guide (OAG) to measure the impact of the merger on airline capacity in individual airline markets in B.C. While the OAG database is not without its limitations, it is the most up to date, comprehensive and consistent source of data on airline services. **Table 0-1** summarises capacity impacts on routes to B.C. Major findings from this analysis include:

- The AC family has reduced the number of inbound domestic flights to the province by 17%. Seat capacity has been reduced by 10%.
- This has been offset by 9% growth in flights (6% in seats) by other domestic carriers, resulting in *an overall 13% reduction in domestic flights to B.C.* (7% in seats).

[1] *Cabotage* is the right granted to a foreign carrier to operate within another nation's domestic market.

- AC has expanded transborder service to the U.S. for an overall increase of 5% in flights and 3% in seats.
- Asian seat capacity has increased by 9% for AC but has declined by 2% for foreign air carriers for an overall increase of 4%.
- European seat capacity increased by 10% for AC, 6% by the Canadian charter carriers but declined by 1% for foreign carriers for an overall increase of 4%.

Table 0-1: Air Capacity Inbound to B.C. (Excluding Intra-B.C.) August 1999 vs. 2000

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Domestic	AC family	3,451	2,856	-17.2%	338,414	303,320	-10.4%
	Other Domestic	679	752	8.5%	98,969	105,756	6.1%
	TOTAL	*4,130*	*3,608*	*-12.6%*	*440,470*	*409,076*	*-6.5%*
Transborder	AC family	960	1,007	4.9%	86,584	88,937	2.7%
	Other Domestic	88	100	13.6%	12,016	11,360	-5.5%
	U.S. Carriers	2,334	2,496	6.9%	205,281	217,986	6.2%
	Overseas Carriers	31	49	58.1%	11,997	16,101	34.2%
	TOTAL	*3,413*	*3,652*	*7.0%*	*315,878*	*334,384*	*5.9%*
Other International	AC family	317	341	7.6%	87,125	95,379	9.5%
	Other Domestic	140	147	5.0%	40,332	46,241	14.7%
	Overseas Carriers	317	303	-4.4%	115,715	113,336	-2.1%
	TOTAL	*774*	*791*	*2.2%*	*243,172*	*254,956*	*4.8%*
Asia-Pacific	AC family	240	248	3.3%	68,378	74,772	9.4%
	Other Domestic	0	0	-	0	0	-
	Overseas Carriers	199	188	-5.5%	74,227	72,836	-1.9%
	TOTAL	*439*	*436*	*-0.7%*	*142,605*	*147,608*	*3.5%*
Europe	AC family	77	93	20.8%	18,747	20,607	9.9%
	Other Domestic	122	118	-3.3%	36,722	39,017	6.2%
	Overseas Carriers	106	106	0.0%	37,288	36,900	-1.0%
	TOTAL	*305*	*317*	*3.9%*	*92,757*	*96,524*	*4.1%*
Misc. International	AC family	0	0	-	0	0	-
	Other Domestic	18	29	61.1%	3,610	7,224	100.1%
	Overseas Carriers	12	9	-25.0%	4,200	3,600	-14.3%
	TOTAL	*30*	*38*	*26.7%*	*7,810*	*10,824*	*38.6%*
TOTAL[3]		**8,317**	**8,051**	**-3.2%**	**996,433**	**998,416**	**0.2%**

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and foreign charter carriers. 3) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

Capacity within B.C. **Table 0-2** summarises the impact on capacity for service within B.C. As can be seen, there has been a major reduction in beyond-the-gateway capacity by AC.

Impact on air capacity from YVR to B.C. Tourism Regions. **Table 0-3** summarises air capacity changes from YVR to the B.C. tourism regions.

Table 0-2: Air Capacity for YVR Routes Intra-British Columbia (August 2000)

By Carrier Group:	British Columbia					
	Frequency			Seat Capacity		
	Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
AC family Carriers	4,369	2,820	-35.5%	159,350	127,033	-20.3%
Other Domestic Carriers[1]	854	1,387	62.4%	29,272	46,885	60.2%
TOTAL	**5,223**	**4,207**	**-19.5%**	**188,622**	**173,918**	**-7.8%**

Source: OAG MAX August 1999 and August 2000 data disk.

Figure 0--1 provides a summary of the capacity changes inbound to B.C. and for intra B.C. routes from YVR.

Figure 0-1 Summary of Capacity Changes Inbound to B.C. and YVR Intra B.C. Routes (August 1999 vs. August 2000)

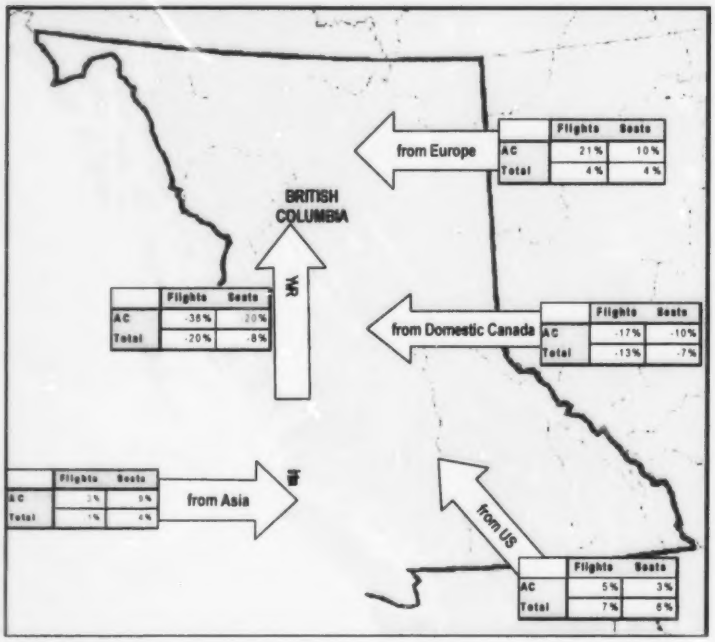


Table 0-3: Air Capacity Changes From YVR to the B.C. Tourism Regions (1999 vs. 2000)

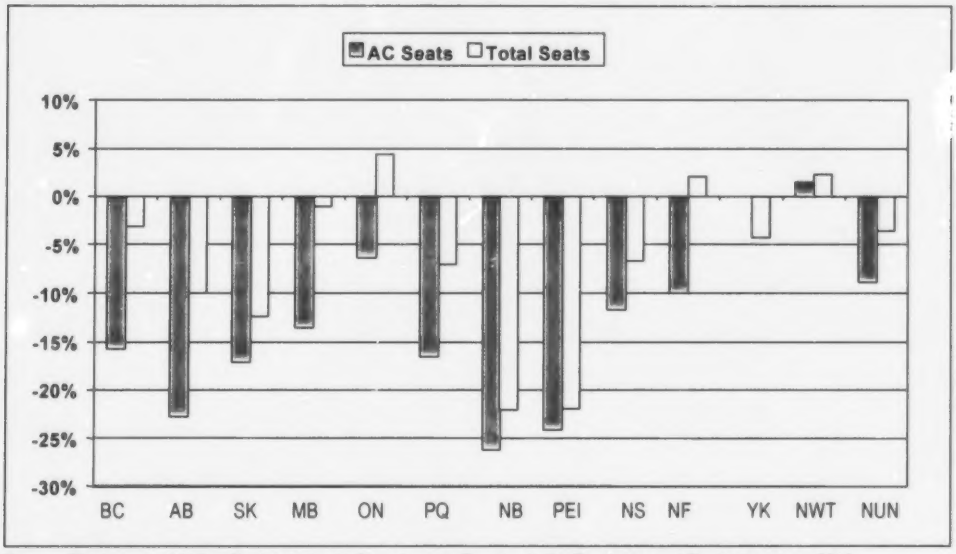
		Frequency			Seat Capacity		
		1999	2000	% Change	1999	2000	% Change
Region A The Islands	AC family	25,495	17,132	-32.80%	827,769	713,414	-13.81%
	Other Domestic	4,165	8,550	105.28%	63,094	184,386	192.24%
	Total	*29,660*	*25,682*	*-13.41%*	*890,863*	*897,800*	*0.78%*
Region B Vancouver, Coast & Mountains	AC family	0	0	-	0	0	-
	Other Domestic	1,801	1,774	-1.50%	32,418	26,610	-17.92%
	Total	*1,801*	*1,774*	*-1.50%*	*32,418*	*26,610*	*-17.92%*
Region C Thompson Okanagan	AC family	10,232	7,350	-28.17%	373,120	293,442	-21.35%
	Other Domestic	1,532	1,370	-10.57%	123,511	163,964	32.75%
	Total	*11,764*	*8,720*	*-25.88%*	*496,631*	*457,406*	*-7.90%*
Region D B.C. Rockies	AC family	2,775	1,978	-28.72%	103,353	80,296	-22.31%
	Other Domestic	80	0	-100.00%	846	0	-100.00%
	Total	*2,855*	*1,978*	*-30.72%*	*104,199*	*80,296*	*-22.94%*
Region E: Cariboo Country	AC family	1,275	1,102	-13.57%	43,442	39,035	-10.14%
	Other Domestic	544	604	11.03%	10,050	11,476	14.19%
	Total	*1,819*	*1,706*	*-6.21%*	*53,492*	*50,511*	*-5.57%*
Region F: Northern B.C.	AC family	11,111	7,261	-34.65%	535,879	379,726	-29.14%
	Other Domestic	285	679	138.25%	34,770	81,928	135.63%
	Total	*11,396*	*7,940*	*-30.33%*	*570,649*	*461,654*	*-19.10%*
TOTAL		**59,295**	**47,800**	**-19.4%**	**2,148,252**	**1,974,277**	**-8.1%**

Notes: Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

Comparison of Impacts on B.C. to Impacts in Rest of Canada

An analysis of August 2000 vs. August 1999 air capacity changes in each of the Canadian provinces/territories and among the other major gateways was conducted to provide a broader perspective on impacts to the B.C. tourism sector. **Figure 0-2** shows the relative impacts.[2] As can be seen, Ontario has fared quite well relative to the other provinces. B.C. has experienced a large drop in capacity offered by AC, but due to WestJet, Pacific Coastal and others, B.C. has had a lower total (AC and others combined) impact.

Figure 0-2: Change in AC and Total Domestic Seats Among the Canadian Provinces (August 1999 vs. August 2000)



Source: The Impact of Airline Restructuring in Canada upon Tourism in the Provinces and Territories, June 2000.

Initial Impact of the Merger on Airfares

Airfares. The study also looked at preliminary information on airline fares in B.C. Sources include databases from Air Tariff Publishing Corporation and Sabre computer reservation system, and average fare data from the Bank Settlement Plan of the International Air Transport Association. Major findings include:

- *There are no significant increases in published airfares taking place.* Preliminary evidence gathered in the review of select city pair markets is consistent with this conclusion. On average, full/discounted economy airfares increased 3% over the previous year. Other fare levels increased at various rates, remained the same or declined.

[2] There are some differences in how capacity to/from/within provinces is treated in the figure that shows impacts on all provinces, versus how capacity was measured in the previous tables, hence they cannot be directly compared.

- *A new discount program has been introduced.* In a recent development, the AC family announced the introduction of new lower fare levels to and from 75 small communities in Canada. The average discount is 38% off the current lowest year round published fare. The new discounts will apply to more than 700 routes, representing 30% of the carriers' markets in Canada. While it is early to assess the impact of the fare reductions, it is known that this is a previously existing fare program, but which is now being expanded to include a range of smaller communities that were previously excluded. Although only 30% of the AC market is included in the program, fare reductions are applicable to routes involving a number of B.C. destinations. In comparison to the previously available fare levels between these city pairs, the discounts are significant. What is required to provide an assessment but is unknown at this time, is whether meaningful numbers of seats will be available at these fares. This is of particular concern given the reduction in capacity on a number of intra-B.C. routes.

Key strategies to deal with fare concerns will be:

- **continued monitoring of average fares.**
- **active pursuit of alternate, sources of detailed average airfare data.**
- **obtain quantitative feedback from inbound tour operator community.**

- *The average airfare paid has increased.* The preliminary information indicates that average airfares from B.C. to Canadian destinations have increased by 5% for the business traveller and 11% for the leisure traveller between 1999 and 2000. Not only is this higher than the nominal increases in fares, B.C. average fares have increased more than the Canada-wide average airfares.

- *The number of discount airfares may have been reduced.* January-May 2000 data on average fares purchased in Canada provide an indication of the direction that ticket sales have taken for travel in Canada. Average fares for pleasure travel have risen at roughly three times the rate that full fares have risen. While there are a number of reasons why average air fares may have increased significantly greater than nominal airfares, the report indicates that the evidence is suggestive that the driver of increased average airfare levels is decreased availability of tickets at discounted fares. Nevertheless, it is not possible to definitively assert that the availability of discount fares has been reduced. Given the importance of this topic to the tourism industry, it will be essential to establish an effective tracking mechanism to monitor changes.

- *Competition brings average fares down.* In markets with significant competition, such as Vancouver-Kelowna, there are substantial fare savings taking place.

InterVISTAS cautions against relying solely on preliminary and anecdotal information. At this early stage, the best approach for gathering solid evidence for trends in yields would be (a) to continue the monitoring of average airfares sales in Canada; (b) active pursuit of

alternate data sources for inbound average airfare data; and (c) gather qualitative and quantitative information from the travel agents and tour operators community to combine with data available from other sources, and (d) to urge the Federal Government to collect and report on changes to fares, average fares and capacity at various discounted fare levels.

Future Changes

Airline industry restructuring is an ongoing process whose effects will continue to take place for the next few years. Some observations that can be made include:

- In spite of the presence of other carriers, the Canadian market is, and will be, dominated by the AC family in terms of fleet and capacity for the next several years. Competitive offsets from charter carriers and WestJet will not be sufficient to eliminate Air Canada's dominance.

The Canadian market is, and will likely continue to be, dominated by the AC family in terms of fleet and capacity for the next several years.

- As AC completes alliances with Delta and potentially with US Airways, and as it pursues a strategy of seeking growth in transborder and other international markets, tourism access to the Vancouver gateway may continue to improve.

- Competition from airlines outside of Canada to beyond-the-gateway markets in B.C. may be insufficient due to limited price competitive access, and due to Air Canada's strategic alliances dominating some key international markets (e.g. Vancouver – Germany).

- A sale of Canadian Regional Airlines (CRAL) may provide important medium term benefits in providing competitive beyond-the-gateway access to U.S. and international carriers. A sale, however, would result in a period of adjustment as AC scrambles to deal with the loss of CRAL's capacity (roughly 50 aircraft), and as an independent CRAL establishes itself in the market.

Preliminary Assessment of Impacts on B.C. Tourism

- *VFR (28% of B.C. non-resident visitors).* The visiting friends and relatives market is generally very sensitive to prices. VFR travel to Vancouver is likely to remain competitive. For beyond-the-Vancouver-gateway markets, the news is not good. There are significant reductions in capacity and there may be reduced access to the lowest fares. A few communities will benefit from offsetting service by WJ and Pacific Coastal.

- *Leisure (56% of B.C. non-resident visitors).* Leisure visitors to B.C. are generally somewhat less price sensitive than VFR but much more price sensitive than various forms of business travel. Impacts are similar to those for VFR travel: competitive for the Vancouver gateway but potentially negative for beyond-the-gateway markets, except where WJ and others can provide significant offsetting capacity.

- *Conference/Business Meetings (16% of B.C. non-resident visitors).* These travellers are much less sensitive to price and much more sensitive to service quality and convenience. The Vancouver gateway will have increased connectivity to U.S., overseas and domestic markets, offset somewhat by higher average fares in domestic markets.

Beyond-the-gateway markets will have mixed effects, but likely negative overall. On the positive side, Victoria and Kelowna have benefited from seasonal non-stop service to Toronto and there may be additional U.S. market penetration from new AC alliances with Delta and possibly US Airways. On the negative side, most communities will experience reduced capacity, higher average fares, and loss of code sharing connectivity with U.S. and overseas carriers.

Policy and Action

A number of actions to mitigate negative impacts on B.C. tourism and to maximise positive impacts from new opportunities were considered. These initiatives can include strategies to:

- Monitor industry developments so negative impacts can be pinpointed in a timely manner.
- Encourage AC to maintain or expand service, especially in beyond-the-gateway markets.
- Ensure that government agencies have powers which can prevent dominant air carrier abuses in a timely manner.
- Create the best conditions for continued expansion of airlines that provide competing services in domestic markets.
- Create an airline network alternative that will provide a competitive choice for tourists and for air carriers (Canadian and foreign) desiring access to beyond-the-gateway markets.
- Increase foreign carrier access to beyond-the-gateway markets at competitive prices.

Below, some details on potential initiatives are provided.

Monitor Industry Developments

1. Data on key measures of airline industry performance should be collected and reported on a timely basis. This should include information on average fares in major market segments (intra-province, domestic transcontinental service, gateway to regional community services, transborder services, overseas services by national market); capacity and frequency in individual markets; market shares of individual carriers (measured in revenues, capacity offered, passengers carried); and load factors.

2. The tourism industry should be provided with regular reports on developments in the airline industry.

Encourage AC Maintenance or Expansion of Service

Because of Air Canada's current and future dominance of the Canadian aviation marketplace, B.C. tourism will depend on this carrier for the majority of inbound air tourism. Accordingly, AC should be supported in its efforts to expand air services to B.C. This leads to the following initiatives that could be considered:

3. AC's efforts to seek additional open skies agreements should be supported by the industry and enabled by government.
4. The B.C. tourism industry should meet regularly with AC staff to exchange marketing concepts and develop methods to support each other's marketing and sales efforts.
5. AC should be encouraged to maintain a senior executive in B.C. Currently AC has no Vice President level manager located in B.C. Although there are indications that Air Canada may establish the headquarters of its proposed discount carrier in Vancouver, it is important that the mainline carrier has senior representation in B.C. and an internal voice for the opportunity of the Vancouver gateway and the B.C. market opportunity.

The B.C. tourism industry must ensure that AC recognises the B.C. gateway and tourism opportunities. AC is cultivating Toronto as a mega-hub, and, with its corporate headquarters in Montreal, has a strong eastern focus in general. As well, much of the senior staff of Canadian Airlines, which had developed a deep understanding of the B.C. market potential, have left the air carrier.

Prevent Abuse by Dominant Carrier

Even with passage of Bill C-26, some believe that the Canadian Transportation Agency will have only weak regulatory oversight powers. A specific concern is its inability to regulate average prices. As well, after a two year initial period, the agency will only be able to investigate prices upon complaint, and the new ombudsperson-commissioner of the Canadian Transportation Agency will have no enforcement powers. Some specific actions, which might be considered, are:

6. Make competitively priced beyond-the-gateway seats on regional AC family flights available to foreign air carriers.
7. Provide the CTA ombudsperson with real powers.
8. Increase the powers of the CTA to monitor and limit increases in average fares.

The Minister of Transport has commenced the required four year review of the Canada Transportation Act. The panel has a reporting date of 1 July 2001. This review process will be an excellent opportunity to put forth revisions to the CTA which will mitigate any negative impacts of airline industry consolidation. As well, there may be opportunity for (or opportunity should be created by) the tourism industry to put forth its views to the Parliamentary Standing Committees on transport. Of special importance is the need to

ensure that in the future, the interests of the tourism industry are explicitly taken into consideration by the Government and its Agencies when dealing with airline industry issues. Australia, for example, explicitly considers tourism interests in its regulatory proceedings.

Best Conditions for Continued Expansion of Air Canada and Independent Carriers

In the long term, B.C. tourism growth will depend on the success of all of Canada's air carriers (AC and independent carriers) in providing competitive access to B.C. communities. This leads to actions that focus, in part, on lowering the costs for these carriers and potentially lower prices for inbound tourists.

9. Reduce or eliminate fuel taxes (provincial and federal domestic) on air carriers.
10. Revise the Federal Airports Policy to limit present and future ground rent payments by airports to the Federal Government.
11. Expand the Federal Airport Capital Assistance Program to increase support for the capital programs at regional airports.

Network airline alternative

12. An independent CRAL could provide important competitive access to beyond-the-gateway tourism markets.

    If Canadian Regional Airlines (CRAL) is successfully sold, then many Canadian communities would have competitive service from an independent network carrier. It would not replicate the extent or frequency of the Air Canada network, and there would be challenges faced by an independent CRAL. If successful, it would be likely to form code sharing alliances with important U.S. and foreign airlines, creating conditions for competitive price access to a number of B.C. tourism destinations.

13. Cabotage access for U.S. and/or other foreign carriers would grant U.S. carriers the privilege of marketing purely domestic air services in Canada.

    Cabotage is considered by some to be a controversial policy action to take. In part, this is because the stereotypical view is that there could be implications for transferring some Canadian jobs to locations in the U.S. However, there are several forms that cabotage could take, and some would generate new jobs in Canada. The text describes several cabotage variants which might be considered:

    - *Modified Sixth Freedom Cabotage.*
    - *Right of Establishment Cabotage.*
    - *Domestic Code Share Cabotage.*
    - *Pure Cabotage.*

    Air Canada itself has indicated it would support cabotage rights provided that privileges are reciprocal. Until recently, reciprocal cabotage rights with the U.S. seemed a remote possibility due in part to the way in which the cabotage prohibition is enshrined in U.S.

legislation. The recent proposal to merge United and US Airways, however, could prompt the U.S. Congress to authorise cabotage rights for non-U.S. carriers, something which already has found some support within Congress. As well, U.K. carriers, such as Virgin, could be interested in establishing Canadian domestic operations, providing an alternative avenue for reciprocal cabotage rights. Virgin is launching domestic service in Australia this summer with the brand name of Virgin Blue. Australia has a significantly smaller domestic market than Canada, and is already served by two financially healthy domestic carriers.

Foreign carrier access

14. There should be an immediate start of a federal international air policy review, rather than a delay of the review to 2001, and an acceleration of implementing changes in this policy from 2002 to 2001.
15. Ensure that the needs of the B.C. tourism industry for increased access for air carriers (Canadian and foreign) to B.C. are made known in that policy review.
16. Obtain open skies regimes with as many countries as possible.
17. Support an early move away from the cumbersome, expensive and time consuming bilateral air services agreement negotiating process. This would be replaced with multilateral agreements. A significant medium term opportunity is to expand the coverage of the GATS agreement to include air traffic rights.
18. Complete the Canada-U.S. open skies agreement to include 5th freedom rights.[3]

[3] The latter initiative requires some comment. The 1995 Canada-U.S. open skies agreement gives U.S. carriers the right to fly to/from Canada, but not beyond Canada. 5th freedom rights, the ability of U.S. carriers to fly beyond Canada to overseas destinations, could result in new services by U.S. carriers, or increased service by overseas carriers due to increased gateway traffic to their flights via third-country-code-sharing by U.S. carriers. Just as importantly, AC could benefit from 5th freedom rights. If it exercised these rights and flew from Canada to a U.S. and then beyond, new overseas destinations (perhaps in Latin America or deeper into Asia) could be connected to Vancouver.

1.0 Introduction

1.1 Industry Restructuring

On 21 December 1999, the federal Minister of Transport announced that the Federal Government would allow Air Canada (AC) to acquire Canadian Airlines International (CAI). This ended several months of industry restructuring battles that were fought in the financial markets, the policy environment and the courts. However, for users of air transport and the tourism industry, this is only the beginning of a multi-year process of industry restructuring. A dominant airline controlling roughly 80% of domestic seat capacity and 90% of revenues has the potential to exercise market power. There are some benefits that could accrue from a large Canadian carrier emerging as a major force in the world airline industry, but a dominant carrier in domestic markets could potentially act to the detriment of the consumers and industries, such as tourism, that depend on air transportation.

1.2 Importance of Tourism to B.C.

Tourism is perhaps the largest and most important sector of the economy that depends on air transport. In British Columbia, Tourism is one of the largest sectors of the economy. In 1998, 113,000 B.C. jobs were directly employed in tourism. It ranked fifth of all B.C. sectors in job growth, outranking all goods production sectors, including the resource industries. Over the previous ten years, tourism employment grew by 31%, almost double the provincial average rate of job growth.

B.C. tourism:

- **113,000 direct jobs.**
- **31% job growth in 10 years.**
- **5th largest in job growth.**
- **larger employment base than any resource industry.**

In 1997, tourism accounted for $4.1 billion of B.C.'s gross domestic product. Industry revenue was roughly $9 billion per year on visitor volumes of approximately 22 million. Over half of these were visitors from outside the province.

1.3 Importance of Air Transport to Tourism

With just over half of the customers served by B.C.'s tourism industry arriving from outside the province, air transport is critical to the industry. Convenient air service increases the size of the accessible market. Air tourists also tend to be the highest tourism spenders. Air access is also critical in moving U.S. and overseas tourists out of the gateways and into other B.C. tourism markets and experiences.

1.4 Purpose of this Report

Considering the critical role air transport plays in B.C. tourism, it is important to understand what is happening as a result of airline industry restructuring and what the implications will

be for the tourism industry. There is much anecdotal evidence of the impacts, but the tourism industry must weigh the factual evidence. In addition, it must look beyond the initial effects, both positive and negative, and anticipate further impacts. Some policy decisions governing Canada's airline industry are yet to be made (such as a new international air access policy); therefore, an opportunity exists for the tourism industry to influence some dimensions of the outcome.

The purpose of the report is to address these issues and to provide information to the B.C. tourism industry and government policy makers to respond to the effects airline industry restructuring. The report will undertake the following:

- Ch. 2 will provide background on the merger of Air Canada and Canadian, the resulting and future structure of the Canadian airline industry, and gaps in the policy environment that must govern the new airline industry.

- Ch. 3 provides consistent, quantitative information on the initial impact of the restructuring airline on flight frequency, seat capacity, fares and routings in B.C.

- Ch. 4 comments on future changes that might be made. The schedule adjustments made in the first half of 2000 were made quickly and more fine-tuning is expected. As well, AC will have opportunities to shed labour through early retirement and other voluntary packages. It may also decide to phase some aircraft out of its fleet. The chapter also documents the initial offsetting impacts of expansion by the charter carriers and WestJet.

- Ch. 5 provides an assessment of the impact of industry restructuring on B.C. tourism.

- Ch. 6 indicates some of the initiatives and actions which government and industry might consider to ensure that industry restructuring has the most beneficial (or least negative) impacts on B.C. tourism.

Because the subject of this report deals with technical aspects of the airline industry, a glossary is provided at the end of this report in **Appendix N**.

2.0 The Merger Between AC and CAI

2.1 Introduction

This chapter provides the background on the merger of AC and CAI. It describes the merger and the undertaking between Air Canada and the Competition Bureau. It then discusses the impact of the merger on airline industry structure. The chapter ends with a description of existing and new regulations in place to deal with a new dominant carrier and the regulatory gaps remaining. Please note that the merger is a dynamic process and the information presented below is as of the date of this report. (For a brief description of the historical development of the Canadian airline industry, see **Appendix A**.)

2.2 The Air Canada-Canadian Merger

2.2.1 The Merger Proposal and Terms

The offer to purchase Canadian Airlines Corporation (the holding company that owns the majority of CAI shares) was made by 853350 Alberta Ltd., an Alberta company set up solely to execute the offer. Air Canada owned 10% of this company and had the option to purchase the remaining 90% upon successful completion of the CAI offer. On 5 July 2000, the Alberta Court Queen's Bench approved the CAI financial restructuring plan. AC has since exercised its option and now owns 100% of Canadian Airlines International Ltd. (the operating airline). Air Canada expeditiously filed a petition with the Canadian Industrial Relations Board to declare Air Canada and CAI a common employer. The next challenge in the merger process is completing the negotiation of agreements with Canadian's unions so that salaries and benefits are harmonised with Air Canada, and the union-to-union negotiation/arbitration to merge seniority lists. The latter is a long process, and one in which the company is not involved.

Air Canada's offer to purchase CAI was contingent upon a number of requirements. These included: no interference from AMR Corp. (the parent company of American Airlines), approval from government and regulatory agencies,[4] no opposition from the Commissioner of Competition, access to non-public CAI financial information, and consented arrangements that provide for the resignation and appointment of directors of CAI. All of these requirements were eventually met, in part because AC agreed to a number of formal undertakings with the Commissioner of Competition.

[4] Prior to approving the merger, the Minister of Transport secured Air Canada's commitment to a) continue to provide existing domestic service for a three year period; and b) ensure no involuntary layoffs or relocations of unionised employees of AC, CAI or their wholly-owned subsidiaries for a two year period. To review the Ministerial press release providing details of the approval, see www.tc.gc.ca/releases/nat/99_h113e.htm.

2.2.2 Air Canada's Undertaking with the Competition Bureau

Air Canada has agreed to a number of undertakings with the Commissioner of Competition that are intended to facilitate market entry and foster competition.[5] These relate to both airport and airline competition and are as follows:

Air Canada agreed to a number of undertakings with the Competition Bureau to facilitate market entry and foster competition.

- Make a small number of slots available at Toronto's congested Pearson International Airport.
- Make airport facilities available to other airlines.
- Reduce Air Canada's influence on airport capital projects.
- Agree to base some airport service costs (such as de-icing services) on passenger volumes and not on the Chicago Formula.[6]
- Divest Canadian Regional Airlines. CRAL's fleet of roughly 50 aircraft, many of which are regional jets, could offer both a) significant competition in domestic markets, and b) foreign carrier price competitive access beyond the gateways. While it would not replicate the Air Canada network in terms of scope and frequency, it might be able to provide a competitive choice for a number of Canadian communities. There would be challenges faced by an independent CRAL, but if successful, it would likely form code sharing alliances with important U.S. and foreign airlines, facilitating price competitive access to a number of Canadian tourism destinations.

The sale of CRAL could offer significant competition in a number of domestic markets and price competitive access beyond the gateway for foreign carriers.

- Give small Canadian carriers access to AC's frequent flyer program, Aeroplan.[7]
- Provide other Canadian airlines with access to interlining and joint through fares.
- Change travel agent incentive commissions applicable to domestic services so that they are not based on achieving domestic market share targets.[8]

---

[5] To review the Competition Bureau's Press Release with the complete list of enforceable undertakings, see http://strategis.ic.gc.ca/SSG/ct01670e.html.

[6] The Chicago Formula requires a fixed amount to be shared equally by carriers, with a residual on the basis of passenger volumes. The consequence of this is that smaller carriers bear a disproportionate share of costs.

[7] Carriers with annual revenues greater than $250 million are not eligible for Aeroplan access. For example, this would exclude Canadian Regional if it was an independent carrier.

- Make surplus Air Canada aircraft available to other Canadian carriers.[9]
- Postpone plans for AC's proposed Eastern subsidiary discount air carrier to give new entrants a chance to start up.

It is important to note that none of these provisions are targeted at sustaining or improving international competition.

2.3 Industry Structure after the Merger

2.3.1 Market Share of the New Air Canada Family

The AC/CAI merger has resulted in a "New Air Canada", consisting of Air Canada, Canadian, the owned regional carriers, and various third level feeder carriers. Some of the regionals operate exclusively for AC. Others operate for AC on specific routes, but operate independently on other routes. (For a listing of the Air Canada family, see **Appendix B**.)

In late 1999, the Competition Bureau indicated that Air Canada and CAI combined sold roughly 80% of domestic airline tickets and received 90% of industry revenues.

Today, in terms of seat capacity offered for sale, analysis previously conducted by InterVISTAS Consulting for Tourism B.C. showed that the AC family accounts for 76% of total seats offered for sale by Canada's airlines.[10] It has a fleet of 436 aircraft (283 of which are jets) that equates to 85% of the domestic fleet and 70% of total domestic *fleet seat capacity*, compared to its 55% share of the domestic fleet and 47% share of domestic *fleet seat capacity* prior to the merger. See **Table 2-1** for a comparison of AC's fleet size with its domestic competitors. Air Canada's significant market share on these different measures underscores its position as a dominant air carrier.

Air Canada and CAI combined:

Prior to Merger

- **sold roughly 80% of domestic airline tickets.**
- **received 90% of industry revenues.**

Today

- **account for 76% of total seats offered for sale.**
- **have 85% of the total Canadian airline industry fleet.**
- **have 70% share of total domestic fleet seat capacity.**

[8] This is the so-called commission override problem, whereby agencies are given an incentive to book a disproportionate amount of their business on the dominant air carrier.

[9] There are significant costs and time delays associated with receiving a Canadian license for a used aircraft.

[10] *The Impact Of Airline Industry Restructuring In Canada Upon Tourism In The Provinces And Territories.* June 2000. The smaller third level carriers were excluded from the computations. Idled DC-10s and 747-200s of Canadian Airlines and Air Canada were excluded from the two analyses.

Table 2-1: Air Canada's Significant Competitors in the Domestic Market (2000)

			Total Combined Fleet Size	
Air Canada Family	***Air Canada***	***163***	**436**	**85%**
	AirBC	20		
	Air Nova	36		
	Air Ontario	27		
	Alberta Citylink	4		
	Aviation Quebec Labrador	4		
	Central Mountain Air	12		
	First Air/NWT Air	3		
	Air Alliance/Air Georgian Ontario Regional	12		
	Regionnair	6		
	Canadian Airlines	***75***		
	Air Alma	3		
	Air St. Pierre	2		
	Calm Air	13		
	Canadian Regional Airlines	56		
Independent Charter Carriers	WestJet	16	**75**	**15%**
	Canada 3000	15		
	Air Transat	23		
	Royal Aviation	11		
	Skyservice	8		
	CanJet*	2		
	RootsAir*	0		

*CanJet and RootsAir have not started operations. As of 21 July 2000, CanJet had two aircraft in use for training. CanJet expects to have a fleet of 6 aircraft by year end, and RootsAir expects to have a fleet of 5.

2.3.2 Domestic Competition

Canada-wide Competition. Currently, competition in the major domestic markets is provided by:

- WestJet (16 jet aircraft), a western-based carrier providing short haul service in a number of major markets as far east as Moncton.[11]
- Charter carriers, providing both charter and scheduled service in transcontinental markets. See Table 2-1 for a list of the charter carriers and their fleet size.

[11] A new short haul scheduled carrier, CanJet, may start up from an eastern base. The carrier has no plans to offer any service in the West.

Collectively, the major charter carriers and WestJet currently operate 70 jet aircraft (75 total aircraft) compared to Air Canada's 283 jet aircraft (436 total aircraft). Air Canada's domestic competitors account for 30% of the fleet seat capacity in Canada. However, because their aircraft operate fewer flights, they account for only 24% of seat capacity available for sale. Even if these carriers were to double in size, they would only account for 31% of industry available capacity.[12] (For background information on Air Canada's competitors, see **Appendix C**.)

Air Canada's domestic competitors, collectively, account for 30% of the fleet seat capacity in Canada but only 24% of seat capacity available for sale.

Potential competition in domestic markets from U.S. or other foreign carriers is not allowed. Such traffic rights, known as "cabotage" services (e.g., a U.S. carrier enplaning a Canadian passenger in Toronto and deplaning the same passenger in Vancouver), generally are not allowed by any country. However, while the Federal Minister of Transport opposes cabotage, he has indicated that he would be willing to consider it in the future if domestic competition fails to emerge. Air Canada has indicated it is willing to accept reciprocal cabotage.

The Minister of Transport will consider negotiating cabotage services with the U.S. only if domestic competition fails to emerge.

Competition in British Columbia. With regard to competition within British Columbia, Pacific Coastal airlines is an important carrier. Pacific Coastal provides service beyond the Vancouver gateway to 13 coastal communities in B.C. It has a fleet of 23 turboprop aircraft, fleet seat capacity of 347, and earns approximately $30 million in annual revenues. Prior to the merger, Pacific Coastal had an agreement with CAI to provide connecting flights between Vancouver and Nanaimo, Comox and Campbell River. It is currently pursuing legal action against AC, claiming that the carrier is abusing its dominant position. For a more detailed account of the court action, see **Appendix E**.

2.3.3 International Competition

Prior to the merger, competition in transborder and overseas markets was provided both by domestic carriers (CAI, AC, charter carriers) and by foreign carriers. Canada negotiates bilateral air service agreements with individual countries and then allocates the negotiated route rights among the Canadian carriers requesting such

Bill C-26 focuses on domestic competitive issues and assumed foreign carriers would provide sufficient competition to AC in transborder and foreign markets.

[12] Idled DC-10s and 747-200s of Canadian and Air Canada were excluded from the analysis.

rights.

In order to increase access to foreign markets, airlines developed marketing alliances among themselves. CAI was a member of the **one**world Alliance and Air Canada is a member of the Star Alliance. (For a description of the types of alliances and a listing of major global alliance memberships, see **Appendix D**.)

After the merger, the Federal Government's regulations, in the form of Bill C-26, focussed on domestic competitive issues and assumed that foreign carriers would provide sufficient competition to Air Canada in transborder and overseas markets. Thus, Bill C-26 did not deal with the following competitive issues:

1) price competitive access for foreign carriers to communities beyond the gateway cities; and

2) Canada's generally restrictive bilateral air service agreements.

As an example of the latter, Lan Chile is allowed access to Montreal and no other community in Canada, yet it has expressed strong interest in serving Vancouver. The Minister has indicated that he will freeze Canada's International Air Policy for two years. For a more detailed discussion of the gaps remaining after Bill C-26, please see section 2.4.3 below. For a description of bilateral air service agreements, see **Glossary** in **Appendix N**.

Of major importance is how industry consolidation affects competition from the global alliances. CAI was a member of the **one**world global alliance that provided competition to the Star Alliance. In addition, CAI also participated in other alliances with a number of other foreign carriers (see **Table D-1 in Appendix D**). With the departure of CAI from **one**world and other alliance agreements, the Star Alliance has a dominant position in Canada. While global alliance carriers (**one**world, Wings, Skyteam) continue to have a presence at some of the Canadian gateway cities, many non-gateway communities have lost price competitive access that they previously enjoyed from **one**world and other foreign carriers.

... but many non-gateway communities have lost price competitive access that they previously had through oneworld carriers, other global alliance carriers or independent carriers.

Alliance competition could potentially be further reduced as Air Canada has signed its own alliance agreement with Delta, previously a competitor to both AC and CAI. In addition, Air Canada's Star Alliance partner, United, is proposing to merge with US Airways, potentially removing yet another major U.S. competitor. Air Canada claims that the US Airways and Delta networks complement rather than compete with its own routes. However, in some important city pair markets, such as Toronto-Atlanta, competitors will now be alliance partners. As well, there may be a loss of indirect competition from the connecting services provided by these carriers.

In terms of the impact on British Columbia, 3 of the 11 foreign carriers that serve the Vancouver gateway with their own aircraft are members of **one**world (British Airways, Cathay Pacific and Qantas). (See **Table D-2 in Appendix D** for a complete listing of the various foreign air carriers that serve the eight Canadian gateway airports.) With no alliance partner in Canada, these carriers are negatively impacted on both the inbound and outbound segments. On the inbound side, they no longer have access to points beyond the Vancouver gateway. Outbound, they no longer have access to important feeder traffic needed to maintain the economic viability of a route. While the Qantas service (which started in July 2000) is a direct response to its loss of code share access to Vancouver on CAI, the economic viability after the conclusion of the Sydney Olympics remains to be seen. Clearly, the inability of foreign carriers to access B.C. cities and communities outside of Vancouver could negatively impact tourism in B.C.

The inability of foreign carriers to access B.C. cities and communities outside of Vancouver will negatively impact tourism in B.C.

Some of the foreign carriers that serve Vancouver had code sharing alliances with CAI. These include Japan Airlines and Alaska Airlines. EVA had a code sharing alliance with Air Canada that was terminated. A new code sharing agreement between Air Canada and Singapore may be possible, as the latter is now a member of the Star Alliance. Carriers such as Japan Airlines and EVA now have reduced price competitive access to beyond the gateway markets in B.C.

2.4 Dealing with the Newly Dominant Air Carrier

The Minister of Transport introduced Bill C-26 to address various public interest concerns arising from the merger of AC and CAI. This bill amended the *Canada Transportation Act*, the *Competition Act*, the *Competition Tribunal Act*, and *the Air Canada Public Participation Act*.

Bill C-26 was introduced to deal with the domination of the Canadian airline industry by one carrier.

2.4.1 Provisions of the *Canada Transportation Act, 1996*

The *Canada Transportation Act* provides regulatory powers with regard to air service, including review of fares and limitations on foreign ownership. Section 55 of the Act limits the foreign ownership of Canadian airlines to a non-controlling 25% of equity, although the percentage can be increased by the Governor-in-Council. The foreign ownership provisions have been tested several times, including cases involving Greyhound

The CTA, 1996 limits foreign ownership of Canadian airlines to a non-controlling interest of 25% of equity – this greatly limits the creation of potential competitors in the Canadian airline industry.

Airlines,[13] Air 2000 (now Canada 3000),[14] and Canadian.[15] The issue of foreign ownership is an important one as it limits the creation of potential competitors in the Canadian airline industry. Some believe that our current regime, with one dominant carrier, might not have emerged if a U.S. carrier was allowed to purchase CAI in 1999.

Bill C-26 expanded the Canada Transportation Agency's ability to review passenger fares and cargo rates, upon complaint, and allows the CTA to direct the air carrier to provide one or more additional fares.[16] The CTA's new pricing review powers were well intentioned; however, a major "loophole" could very well render this amendment useless in protecting the public interest in terms of reasonable airfares. This is because the CTA regulates *fares*, not *average fares*. For example, Air Canada may be offering a discounted fare for Vancouver-Toronto at $599. The CTA may review a proposed increase in the fare and require that Air Canada continue to offer the fare of $599. However, the CTA does not regulate *average fares* and cannot dictate the number of seats that Air Canada must offer at the lower discounted fare. Air Canada could offer only 1 seat on each flight at $599, reducing access to the low fares and thus reaping a major increase in average fares. This will impact tourism as tourists are price sensitive and will choose other destinations when access to discount fares is reduced.

Bill C-26 also amends the Air Canada Public Participation Act to legislate the undertakings by Air Canada previously described in Section 2.2.2. It is important to note that the undertakings will be reviewed three years after the merger to determine whether the companies should be relieved of any undertakings or whether any undertakings should be altered.

2.4.2 Provisions of the *Competition Act*

The Competition Bureau is the governing body that enforces the *Competition Act*. The Bureau has the authority to review mergers, either of its own accord or in response to complaints. If a merger is found to be undesirable, the Bureau must take the case to the Competition Tribunal, a quasi-judicial body. After due process, the Tribunal makes a decision as to whether the merger should be allowed. Tribunal decisions may be appealed but only on matters of procedure. Until Bill C-26, neither the courts nor the Government have the ability to

The *Competition Act* has provisions that govern against abuse of dominant position, conspiracy and predatory pricing.

[13] An attempt by Greyhound Lines (US) (Dial Corp.) to invest in Greyhound (Canada) Airlines was rejected. Greyhound was restructured with a major Canadian ownership.

[14] Air 2000, a European travel group, attempted to create a Canadian charter airline of the same name. When this was rejected by the Agency, a new carrier, Canada 3000, with Canadian investors, was formed.

[15] The Agency allowed a 33% total equity investment by American in Canadian Airlines. American was confined to only 25% of voting equity and only two seats on the board of directors.

[16] The Agency may review prices on its own initiative for the next two years.

review an airline merger on issues of substance.

Bill C-26 removed oversight of major airline mergers from the Competition Bureau, replacing it with oversight by the Governor-in-Council (GIC). (Airlines and banking are the only industries with direct GIC review of mergers.) Bill C-26 explicitly authorised the merger of AC and CAI.

The *Competition Act* continues to have provisions that govern airline abuse of dominant position, conspiracy, and predatory pricing.[17] A concern with the provisions are that rulings often require many years to obtain and competitors can be driven from the market by a dominant firm long before.

The Competition Bureau received new powers in Bill C-26 to issue cease and desist orders to allow for an immediate remedy for complaints of anti-competitive behaviour by a dominant air carrier. In contrast, a typical predatory pricing complaint takes four years to process and convict. The temporary cease and desist authority could save a small carrier from going out of business before the usual complaint process runs its course.

2.4.3 Gaps Remaining After Bill C-26

While Bill C-26 addresses some important issues meant to prevent abuse by a dominant air carrier, several competition issues remain:

- Limited access for foreign carriers to Canadian communities.
- Access to competitive beyond-the-gateway add-on fares for foreign carriers.
- Inability to control average fares and capacity offered at discount fares.

Foreign carrier access to Canadian markets. Bill C-26 has no provision to facilitate improved access to Canadian markets by foreign carriers. Foreign air carries can serve a Canadian city only if authorised by a bilateral air services agreement between Canada and the foreign country. Unlike the case of the U.S., most of Canada's agreements are restrictive, rather than liberal. In a large number of the existing agreements, the foreign carriers are confined to serve specific cities. Lan Chile, for example, is only allowed to serve Montreal. It is not allowed access to Toronto, Vancouver or any other Canadian point. The Vancouver International Airport Authority has

Bill C-26 has no provision to facilitate improved access to Canadian markets by foreign carriers.

... The Minister does not intend to make any changes to Canada's international air policy before 2002.

[17] An example of abuse of dominant position would be if the sole ground handling company at an airport was the dominant carrier and it refused to handle other carriers' aircraft. An example of conspiracy is if travel agents attempted to bargain collectively (under current legislation). Predatory pricing could occur when a dominant airline sets fares below cost in order to drive competitors out of the market.

determined that only one-third of Canada's air services agreements allow foreign carrier access to Vancouver.

Foreign carrier authorisation to serve a point in Canada is required even for code sharing. Thus, a Chinese carrier cannot show code sharing service beyond Vancouver to a point such as Kelowna.

The Minister has indicated that he will not make any changes to Canada's International Air Policy until 2002. This is somewhat surprising, as Air Canada itself is calling for more open skies agreements.

Beyond the gateway fares for foreign carriers. Air Canada's undertaking with the Competition Bureau gives Canadian domestic carriers some access to add-on AC fares. Add-on fares are those charged for a continuing sector and are lower than fares charged for the same flight on a stand alone basis. For example, if a passenger wanted to fly from Toronto to Victoria and called Skyservice (which only flies as far as Vancouver), Skyservice could request an add-on fare from Air Canada for the Vancouver-Victoria sector. Passengers would have a choice of price competitive service to Victoria.

Bill C-26 does not provide for price competitive access to beyond-the-gateway markets for foreign carriers.

Bill C-26 does not provide this same provision for foreign carriers. British Airways has complained to the Parliamentary Standing Committees that this is seriously impacting its business. Formerly, it could purchase an add-on fare for a Vancouver-Kelowna or similar sector at a competitive rate. Since the beginning of this year, however, it must pay three times the rate.[18] This is eroding the viability of such services, and because 18% of its total traffic typically flew beyond the gateways, is undermining the financial viability of its current level of gateway services.

Complaints and legal actions. It should also be noted that there are a number of regulatory and Competition Bureau actions underway at the moment. (These are described

[18] The process of establishing international air fares to beyond-the-gateway communities is complicated. The actual fare paid by the consumer is generally set by a standard set of "arbitraries" which are added to the fare to the gateway. These arbitraries effectively set the fare that all carriers will charge from the foreign gateway to the beyond-the-gateway point in Canada (at least for the reference unrestricted full fare). The issue for the foreign carrier, is what share of the revenue it will receive for its portion (foreign gateway to Canadian gateway) of the flight. This is referred to as the pro-rate. IATA has a standard formula for pro-rates but these do not apply to purely domestic flight legs. Further, conventional practice for domestic flight legs produces a pro-rate which is very unfavourable for the foreign carrier. Because of this, over the past few years, carriers have entered into special pro-rate agreements (often but not always as part of a broader alliance agreement), which provided a foreign carrier with a more favourable pro-rate for domestic flight legs. As part of industry restructuring, a number of these special pro-rate agreements for domestic Canadian flight segments have been cancelled, resulting in a reduction in the share of the fixed revenue which the foreign carrier has received. British Airways is a foreign carrier whose special pro-rate agreement with Canadian was cancelled, resulting in a major loss of revenue on beyond-the-gateway tickets. BA is suggesting that this loss of revenue is so large that it removes its willingness to sell tickets beyond that gateway as the net revenue is too low. Thus its capacity will be sold almost exclusively to gateway customers. Further, the decision to withdraw from selling tickets to beyond-the-gateway markets may induce it to reduce its capacity to the gateway.

in Appendix E.) The outcome of these actions could have implications for the nature of competition in airline markets to/from/within Canada. A decision that AC's actions in the Toronto-Moncton market were in violation of the Competition Act might encourage new carriers or expansion by existing independent domestic carriers. It is too early to speculate what the outcome of these regulatory actions will be or what the consequences would be.

Opportunity: Mandatory four year review of the Canada Transportation Act. On 29 June, 2000, the Minister of Transport announced the appointment of a panel to conduct a comprehensive review of the *Canada Transportation Act*. The review panel's report is to be submitted to the Minister by 1 July 2001. While the initial thrust of the panel's review will be in the railway sector, the Minister has specifically requested that they consider other issues including public policy issues that may emerge from newly arising industry structures. The review presents a well-timed and strategic opportunity for tourism industry stakeholders to document and explain the impacts of airline restructuring on the tourism industry and to advocate for needed changes to the *Act* to address the gaps left by Bill C-26. This is also an opportunity to advocate for a process by which tourism industry impacts are explicitly considered in Agency decisions and in the development of Air Transport Policies by Transport Canada, similar to what has occurred in Australia and other nations.

The mandatory review of the CTA, 1996 presents a well-timed and appropriate forum for tourism industry stakeholders to discuss the impacts of airline restructuring on tourism.

2.5 Summary

Prior to the merger, the B.C. tourist enjoyed vigorous airline competition, from both foreign carriers and from competing domestic carriers. Post-merger, AC has become the dominant air carrier in the domestic market. AC agreed to a number of undertakings with the Competition Bureau in order to facilitate market entry and foster competition. In addition, legislation was passed to deal with public interest concerns around an industry dominated by one carrier. However, even with AC's undertakings with the Competition Bureau and Bill C-26, Canada is still unable to deal fully with the competitive issues surrounding an airline industry dominated by one carrier.

3.0 Initial Impact of Merger on Air Capacity and Fares

This chapter examines the impact of airline restructuring in Canada on flight capacity, air traffic, and airfare levels for British Columbia tourism markets. The air capacity analysis provides an overview of the aggregate changes experienced since restructuring began. It also shows changes in priority tourism markets, in each of the six provincial tourism regions, and changes in B.C. relative to other areas of Canada.

Initial impact of the airline industry restructuring is examined for

- **Air Capacity**
- **Passenger Traffic Levels**
- **Airfare Prices**

Changes in passenger traffic levels are investigated at key B.C. airports and among the AC family of carriers in this early phase of airline restructuring.

A review of airfare levels in the British Columbia marketplace is included. Average fares are general indicators of the sales trends in the marketplace. The discussion provides an overview of available airfare data, highlighting data shortfalls.

3.1 Air Capacity in British Columbia

3.1.1 The British Columbia Air Services Network

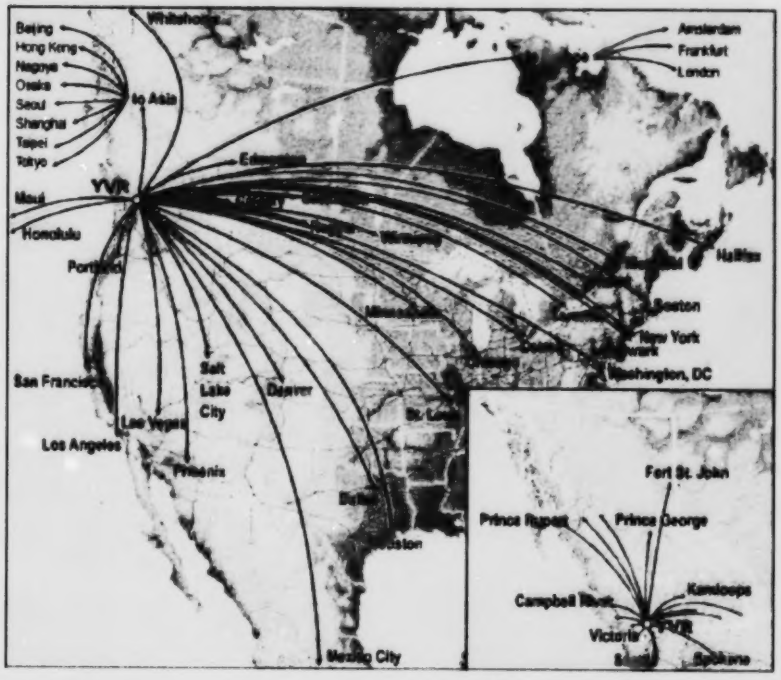
YVR is the primary gateway to British Columbia and is well connected with a network of domestic, transborder and international air services.

The British Columbia air service network is a hub and spoke system, with Vancouver International Airport (YVR) providing the main gateway access. As of Summer 2000, the YVR international network included non-stop scheduled air services from 21 points in the United States, 8 in Asia, 3 in Europe and 1 in Central America. In addition, YVR is linked to other cities in the United States, Mexico, the Caribbean, and Europe by charter services. However, with the exception of Europe, many of the charter carriers operate to sunspot destinations carrying predominately outbound resident traffic, rather than inbound tourism traffic. YVR also has an extensive network of domestic scheduled and charter air services. It is linked via daily non-stop flights to 10 major Canadian cities outside British Columbia. Close to 30 airports within the province are served with daily scheduled non-stop flights. A range of one-stop air services to/from various domestic and international points are also offered from YVR. YVR

continues to undertake an aggressive program of air service development with emphasis on the commencement of new routes in the United States, Asia, Europe, and South America.[19]

Figure 3-1 provides a summary of the network of air services linking YVR with cities in British Columbia, other provinces in Canada and abroad.

Figure 3-1: The YVR Air Services Network (2000)



Note: Due to limited space not all intra-B.C destinations appear on the map.

Apart from the Air Canada family, 11 international carriers, 9 U.S. airlines, WestJet, and the major charter carriers provide air services to British Columbia. A host of local and regional air carriers provide air services within the province. **Appendix F** includes a list of air carriers operating at YVR.

Other Gateways. Although YVR is the main gateway to the province, there are also a select number of British Columbia airports with air services from other provinces and Washington State. Kelowna and Victoria have non-stop air services from Seattle, from the gateway of Calgary, and have seasonal service from Canada's largest gateway, Toronto.

[19] Additional anticipated routes by 2005 include: Fukuoka, Guangzhou, Ho Chi Minh City, Santiago, Sao Paulo, Paris, Atlanta, Miami, Oakland, Pittsburgh. (Source: Spectacular Connections, YVR)

As well, Prince George, Castlegar, Cranbrook, Dawson Creek, Kamloops and Penticton airports are linked to Calgary and/or Edmonton gateways with non-stop services.

3.1.2 The April 2000 Air Canada Family Flight Schedule

The Summer 2000 schedule for the combined Air Canada family was created in a remarkably short period of time considering the complexity of the process. The main objective was to efficiently realign the combined fleets of AC and CAI by reducing capacity, rather than eliminating non-stop destinations. Excess capacity was created on domestic routes over the years that AC and CAI were fierce competitors, particularly in the West. The Summer 2000 schedule was also an opportunity for AC to increase and/or introduce new services on domestic, transborder and international routes using redeployed aircraft.

The initial *purging* component of the summer schedule resulted in a 26% drop in weekly outbound flight frequency and a 20% decline in weekly outbound seat capacity by the Air Canada family of carriers at British Columbia's primary gateway, YVR.[20] These reductions may seem extreme, but were moderate relative to cuts at other western Canadian airports.

The *augmentative* component of the April 2000 schedule with respect to Vancouver International Airport (YVR) is summarised in **Table 3-1.**

Table 3-1: New & Enhanced YVR Air Services by the AC Carrier Family (April 2000)

Market	Route	Action	Details
Domestic	YVR-Halifax	New Service	Daily non-stop
	YVR-Toronto	Enhanced Schedule	Fixed hourly schedule
	YVR-Regina	Increased Service	Increase to twice-daily
	YVR-Saskatoon	Increased Service	Increase to twice-daily
Transborder	YVR-Spokane	New Service	12-weekly non-stop
	YVR-Denver	New Service	Daily non-stop
	YVR-Washington (Dulles)	New Service	Daily non-stop
International	YVR-Mexico City*	New Service	Daily non-stop
	YVR-Seoul	Increased Service	Increase to daily
	YVR-Hong Kong	Increased Service	Increase to twice daily

Source: Air Canada Press Release, February 9, 2000.

* Launch date since postponed to late 2000 or 2001.

To date, AC has been quick to change its schedule in response to market signals. For example, there was sufficient negative consumer reaction to the April 2000 schedule to cause AC to make some amendments of domestic services. By the end of May 2000, capacity had been restored on many routes including

By late May 2000, AC family capacity had been restored to a number of domestic routes from YVR.

[20] Sources: Air Canada, Canadian Airlines, Official Airline Guide (OAG), and SABRE computer reservation system.

Vancouver-Calgary, Vancouver-Winnipeg, Vancouver-Toronto and Vancouver-Ottawa. Also, in June, AC added daily non-stop service between Kelowna and Toronto. However, the international service to Mexico City that was to be inaugurated this summer has been postponed. The aircraft that would have been utilised for this route have been redeployed into markets that have proven to generate higher traffic.

Anticipated future schedule changes are discussed in detail in Chapter 4 of this report.

3.1.3 Overall Impact on Air Capacity to/within British Columbia

There is much anecdotal evidence of the impact of the merger on airline capacity in Canada. An analysis of the Official Airline Guide (OAG) schedule data was undertaken to quantify the impact. The following air capacity discussion utilises flight schedule data from the OAG, supplemented by charter flight data gathered from alternate sources.

3.1.3.1 Measures of Air Capacity

Air capacity is examined based on two measures. Flight frequency is used to identify changes in service levels between city pair markets over a given time period. Market seat capacity, however, measures *access* and is a particularly important indicator for the tourism industry.[21] Because there can be significant variation in capacity measures between the different seasons of the year, evaluation over different time periods is essential. As the focus of this study relates to the tourism industry, air capacity is presented for the peak inbound tourism season (August 2000), as well as for the full year 2000.

Air capacity will be examined based on two measures:

- **flight frequency measures service levels.**
- **seat capacity measures access.**

There are some caveats to the flight schedule analysis. Although the most current available schedule from the Official Airline Guide has been utilised as the main data source, there are some limitations to the accuracy of the information. A detailed discussion of the data sources, data treatment and limitations of the air capacity analysis appears in **Appendix G**.

3.1.3.2 Impacts on Air Capacity in British Columbia

Table 3-2 summarises the overall impact on air capacity to British Columbia for August 2000. **Table H-1** and **Table H-2** in **Appendix H** include a more detailed set of inbound British Columbia air capacity for both August 2000 and the year 2000.

[21] Air carriers measure capacity based on available seat miles (ASMs), but for airports and tourism, the relevant measure of access is seats available for sale.

Table 3-2: Air Capacity Inbound to B.C. (Excluding Intra-B.C.) August 1999 vs. 2000
(includes all non-stop, inbound, interprovincial, domestic, transborder, and international flights)

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Domestic	AC family	3,451	2,856	-17.2%	338,414	303,320	-10.4%
	Other Domestic	679	752	8.5%	98,969	105,756	6.1%
	TOTAL	*4,130*	*3,608*	*-12.6%*	*440,470*	*409,076*	*-6.5%*
Transborder	AC family	960	1,007	4.9%	86,584	88,937	2.7%
	Other Domestic	88	100	13.6%	12,016	11,360	-5.5%
	U.S. Carriers	2,334	2,496	6.9%	205,281	217,986	6.2%
	Overseas Carriers	31	49	58.1%	11,997	16,101	34.2%
	TOTAL	*3,413*	*3,652*	*7.0%*	*315,878*	*334,384*	*5.9%*
Other International	AC family	317	341	7.6%	87,125	95,379	9.5%
	Other Domestic	140	147	5.0%	40,332	46,241	14.7%
	Overseas Carriers	317	303	-4.4%	115,715	113,336	-2.1%
	TOTAL	*774*	*791*	*2.2%*	*243,172*	*254,956*	*4.8%*
Asia-Pacific	AC family	240	248	3.3%	68,378	74,772	9.4%
	Other Domestic	0	0	-	0	0	-
	Overseas Carriers	199	188	-5.5%	74,227	72,836	-1.9%
	TOTAL	*439*	*436*	*-0.7%*	*142,605*	*147,608*	*3.5%*
Europe	AC family	77	93	20.8%	18,747	20,607	9.9%
	Other Domestic	122	118	-3.3%	36,722	39,017	6.2%
	Overseas Carriers	106	106	0.0%	37,288	36,900	-1.0%
	TOTAL	*305*	*317*	*3.9%*	*92,757*	*96,524*	*4.1%*
Misc. International	AC family	0	0	-	0	0	-
	Other Domestic	18	29	61.1%	3,610	7,224	100.1%
	Overseas Carriers	12	9	-25.0%	4,200	3,600	-14.3%
	TOTAL	*30*	*38*	*26.7%*	*7,810*	*10,824*	*38.6%*
TOTAL[3]		**8,317**	**8,051**	**-3.2%**	**996,433**	**998,416**	**0.2%**

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and foreign charter carriers. 3) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

- **Impact on domestic frequency and seating capacity.** The AC family has reduced the number of inbound domestic flights to the province by 17%. This has been offset by 9% growth in the service by other domestic carriers resulting in an overall 13% reduction in domestic flights. Because the remaining AC flights, on average, use larger aircraft today than they did in 1999, the impact on domestic seating capacity is less: the AC family seat capacity declined by only 10%. This was offset by a 6% increase in seats by other carriers for a 7% net reduction.

- **Impact on transborder frequency and seating capacity.** For August 2000, AC has expanded transborder services to the U.S. for an overall increase of 5% in flights, and 3% in seats. Similarly, other carriers have expanded these services creating an overall increase of 7% in flights and 6% in seats.

- **Impact on international frequency and seating capacity.** AC has also enhanced capacity in the overseas (other international) sector (8% increase in flights and 10% increase in seats). Together with changes in capacity by foreign carriers, the overall growth is 2% in flights and 5% in seats.

  - Asian seat capacity increased by 9% for AC, but has declined by 2% for foreign carriers for an overall increase of 4%.

  - European seat capacity increased by 10% for AC, increased by 6% for the Canadian charter carriers, but declined by 1% for foreign carriers, for an overall increase of 4%.

Figure 3-3 summarises the overall impact on air capacity *within British Columbia* for August 2000. The data represents only intra-B.C. flight routings involving Vancouver International Airport (YVR). **Appendix H** includes intra-British Columbia air capacity tables for both August 2000 and the year 2000 in **Table H-6** and **Table H-7** respectively.

Table 3-3: Air Capacity for YVR Routes Intra-British Columbia (August 2000)
(includes all non-stop, intra-B.C. flights arriving at YVR)

By Carrier Group:	British Columbia					
	Frequency			Seat Capacity		
	Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
AC family Carriers	4,369	2,820	-35.5%	159,350	127,033	-20.3%
Other Domestic Carriers[1]	854	1,387	62.4%	29,272	46,885	60.2%
TOTAL	**5,223**	**4,207**	**-19.5%**	**188,622**	**173,918**	**-7.8%**

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

Based on the August 2000 schedule:

- **Impact on the intra-B.C. frequency.** The AC family has reduced the number of intra-B.C. domestic flights by 36%. This has been offset in part by a 62% growth in the other domestic carriers (primarily WestJet and Pacific Coastal) resulting in an overall 20% reduction in intra-B.C. flights.[22]

[22] Prior to industry restructuring, Pacific Coastal Airlines operated a number of flight services within B.C. as code-shared flights for the AC family. Following the industry merger, Pacific Coastal maintained a number of these routes operated under their own flight code. A portion of the capacity losses attributed to AC and the gains attributed to other domestic carriers represent the change in airline codes from AC family flights to Pacific Coastal flights.

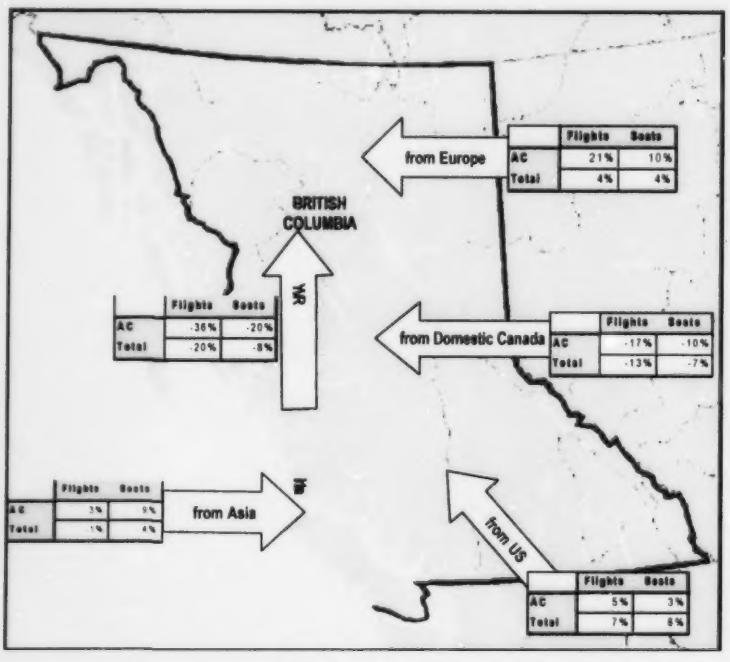
- **Impact on the intra-B.C. seating capacity.** The impact on seating capacity is less: the AC family seat capacity decline of 20% was offset by a 60% increase in capacity by other carriers, for an overall decline of 8%.

Although Summer capacity has increased, the transborder sector will experience a decline in AC seats and frequencies from the U.S. over the full year 2000.

Analysis was also undertaken for full year schedules. For inbound and intra-B.C. services, the overall impact on domestic air capacity for British Columbia for the full year 2000 is similar to that for August 2000 presented above. Domestic service reductions on AC are only marginally greater over the full year. The annual impact on overseas air capacity is also very similar to the August 2000 analysis. However, for the transborder sector AC seats and frequencies declined over the full year. This slightly offset by some increases by U.S. carriers; the net result is a decline in both air capacity measures (See **Table H-3** and **Table H-4** in **Appendix H**).

Figure 3-2 provides a summary of the capacity changes inbound to B.C. and for intra B.C. routes from YVR.

Figure 3-2 Summary of Capacity Changes Inbound to B.C. and YVR Intra B.C. Routes (August 1999 vs. August 2000)



3.1.3.3 Impact on Air Capacity in British Columbia by Market Sector & Routes

Recognising that world regions vary in market importance to provincial tourism, air capacity for a number of priority routes is presented in **Appendix I, Table I-1**. In the short haul domestic market, travellers from Alberta account for 77% of the B.C. tourism revenue, while those from Ontario make up 73% of the long haul domestic market. Thus, within Canada, air capacity data for Calgary, Edmonton and Toronto are presented. Although U.S. short haul flights represent a significant share of the overall U.S. visitor volume, the American markets selected for analysis are those from which the likelihood of air travel is the highest: San Francisco, Los Angeles and Chicago. Major international markets in the Asia Pacific and Europe were also selected for review.[23]

- **Impacts on short and long haul domestic markets.** In the short haul domestic market from Calgary, AC family flights and seats are down 29%. This is partially offset by increases by the other domestic carriers but the result is a net drop of 21% in flights and 20% in seats. The Edmonton market is similarly affected, although the net result is less dramatic, with a 15% reduction in AC seats and frequencies. Toronto experienced a 1% increase in AC family flights in August 2000 but a small drop in capacity (-0.6%). However, Toronto service by other domestic carriers is down, resulting in an overall decrease of 2% in flights and 4% in seats.

- **Impacts on the long haul U.S. market.** In the long haul U.S. markets selected, there is some decline in AC seat capacity; however, it is offset by increased service by U.S. carriers. For August 2000, the net capacity change is positive.

- **Impacts on international markets.** The AC capacity changes in international markets tend to be route specific. For example, service from London increased 21% in flight frequencies and 10% in seats. Seoul experienced the largest growth in service with a 121% increase in both frequencies and seats. Hong Kong experienced a 27% increase in flights and 19% increase in seats. Despite a 23% decrease in flight frequencies from Tokyo, a change in aircraft type has resulted in a 30% increase in capacity. Service from Taipei decreased with a 30% reduction in flights and a 21% reduction in seats.[24] Nagoya and Osaka experienced no changes in AC service from August 1999.

[23] The Asia-Pacific market discussion excludes Australia and New Zealand as there is no non-stop air service operating out of Vancouver. Similarly, Qantas' Vancouver-Sydney service via Honolulu (which began 3 July 2000) does not appear in the 2000 capacity analysis.

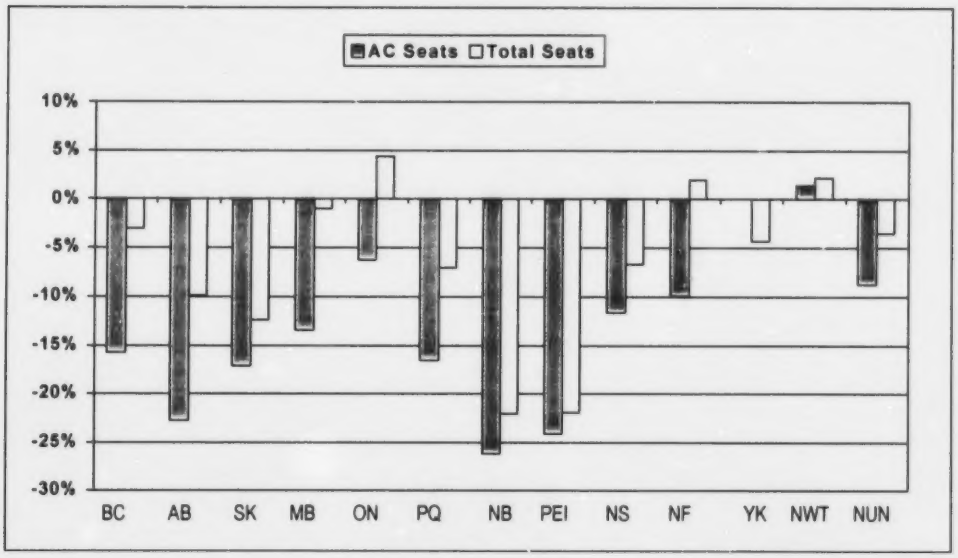
[24] The decline in capacity to/from Taipei is due to the reduction of 3 weekly AC coded flights and the removal of 3 weekly A343 flights by Eva Airways in August 2000 (relative to August 1999). There was no change in the daily service to Taipei operated by Canadian Airlines and China Airlines (formerly Mandarin Airlines).

3.1.3.4 Impact on Air Capacity for British Columbia Relative to the Rest of Canada

An analysis of August 2000 vs. August 1999 air capacity changes in each of the Canadian provinces/territories and among the other major gateways was conducted to provide a broader perspective on impacts to the B.C. tourism sector.[25]

AC capacity losses to British Columbia are moderate relative to most of the Maritimes and western prairies, which were especially hard hit.

Figure 3-3: Change in AC and Total Domestic Seats Among the Canadian Provinces (August 1999 vs. August 2000)



- **Figure 3-3** shows the change in seats, both for AC and the total for all carriers. Almost all of the provinces have suffered declines in flights and seats by AC, but there are significant disparities. Ontario experienced the lowest impact. Losses to British Columbia are moderate relative to most of the Maritimes and western prairies, which were especially hard hit. Significant capacity declines in the Maritimes were due in large part due to the loss of service by InterCanadien. The one exception is Newfoundland, where AC re-entered the Stephenville market.

  Figure 3-3 indicates that there has been a significant difference in terms of offsets from the independent air carriers. Saskatchewan and the Maritimes have had little offset. British Columbia, Ontario, and Manitoba have enjoyed very significant positive offsets.

[25] This analysis was conducted in a related Tourism BC study utilising a slightly different database of flight schedule data. Although the actual percentages may vary from other capacity data presented in this chapter, the overall impact is consistent. Source data is from the OAG MAX June 2000 disk.

- **Impacts among Canadian gateways** Because of the importance of the gateways, a separate analysis was performed to compare Vancouver to the three other major gateways for international services: Toronto, Montreal and Calgary. Among the individual gateways, there is substantial variation. Calgary, the former home of Canadian, suffered a domestic capacity cut that is roughly double that of Vancouver and the others. Calgary is also the only gateway to lose transborder capacity in peak tourism season. Vancouver achieved moderate gains in transborder capacity, relative to significant increases in Toronto and Montreal. Vancouver also experienced modest gains in other international capacity, relative to significant increases in Toronto and Calgary. Montreal is the only gateway to experience a decline in other international capacity.

3.1.3.5 Impact on Air Capacity for YVR Relative to U.S. Gateways

An analysis of air capacity was also conducted for Vancouver (YVR) relative to the West Coast U.S. gateway airports of Seattle, San Francisco and Los Angeles. Key international tourism markets for B.C. were identified for the August 2000 vs. August 1999 analysis. See **Table H-11** in Appendix H.

Some observations:

- **Asia Markets** (Tokyo, Nagoya, Osaka, Taipei, Hong Kong & Seoul) Tokyo, Taipei and Hong Kong routes have the largest aggregate seat capacities of the markets examined. Considering the West Coast airports as a group, there was significant growth in the Seoul market (30%) between August 1999 and 2000. Only marginal growth or decline were recorded in the other markets. In terms of seat capacity market shares among the competitor airports, Los Angeles is the dominant airport for all Asian routes except Hong Kong. Vancouver holds a dominant share with 43% of the seats available between Hong Kong and 4 gateway airports. Vancouver also holds a strong position in the market between Nagoya and the West Coast airport group with a 48% share (vs. a 52% share held by Los Angeles). For the other key markets, the YVR share is approximately 15% for Tokyo, Osaka and Seoul, and 24% for Taipei. Between August 1999 and August 2000 there was minimal change in YVR's relative market share of seat capacity. The most significant change for YVR was a 4% drop in the share (28% to 24%) of the overall Taipei market. The Summer 2000 reduction in weekly YVR-Taipei flight frequencies by Air Canada and Eva Airways was the main reason for the loss in market share.

In Asian markets YVR lost a 4% share from Taipei among West Coast gateways.

- **European Markets** (London, Frankfurt & Amsterdam) The London route is by far the largest for aggregate seat capacities of the markets examined. Considering the West Coast airports as a group, there was significant growth in the Frankfurt market (18%) between August 1999 and 2000. (This was primarily due to additional flight

In European markets, there was minimal change in YVR's share of capacity among West Coast gateways.

frequencies added between San Francisco and Frankfurt). Marginal growth was recorded for London and slight decline in the Amsterdam markets. In terms of seat capacity market shares among the competitor airports, Los Angeles is again the dominant airport for all European routes examined. Vancouver currently holds a 22% share of the London market, a 25% share for Frankfurt and 30% share for Amsterdam. Between August 1999 and August 2000 there was minimal change in YVR's relative market share of seat capacity. The most significant change for YVR was a 2% drop in the share (27% to 25%) of the overall Frankfurt market. (This was due to the additional capacity added in the San Francisco market).

- **South Pacific** (Sydney, Auckland) As the analysis involves only non-stop air services, Vancouver does not register air capacity for the South Pacific markets. This market is dominated by Los Angeles air services. The Sydney market recorded a 3% growth in August over August seat capacity. Market share is divided between Los Angeles (82% of seat capacity) and San Francisco (18%). The Auckland market contracted 11% in terms of seat capacity during the same period. All non-stop services from Auckland are routed to Los Angeles.

3.1.3.6 Impact on Air Capacity From YVR to the Tourism Regions

A separate analysis was conducted to assess the impact of air capacity changes for services from YVR to each of the of the distinct tourism regions illustrated in **Figure 3-4**. The focus of this analysis is air capacity changes that effect travel from the YVR gateway into tourism regions. This analysis also includes a review of changes to a sample of B.C. airports and the main gateways to the province: Vancouver International Airport for all sectors, and Victoria and Kelowna airports for domestic and transborder sectors. Full year 2000 data is presented in this analysis to provide a perspective on annual changes in the capacity.

Figure 3-4: British Columbia Tourism Regions with Main Provincial Airports

Table 3-4: Air Capacity Changes From YVR to the B.C. Tourism Regions (1999 vs. 2000)
(includes all non-stop flights/seats from YVR to airports within the selected tourism region)

		Frequency			Seat Capacity		
		1999	2000	% Change	1999	2000	% Change
Region A The Islands	AC family	25,495	17,132	-32.80%	827,769	713,414	-13.81%
	Other Domestic Carriers	4,165	8,550	105.28%	63,094	184,386	192.24%
	Total	*29,660*	*25,682*	*-13.41%*	*890,863*	*897,800*	*0.78%*
Region B Vancouver, Coast & Mountains	AC family	0	0	-	0	0	-
	Other Domestic Carriers	1,801	1,774	-1.50%	32,418	26,610	-17.92%
	Total	*1,801*	*1,774*	*-1.50%*	*32,418*	*26,610*	*-17.92%*
Region C Thompson Okanagan	AC family	10,232	7,350	-28.17%	373,120	293,442	-21.35%
	Other Domestic Carriers	1,532	1,370	-10.57%	123,511	163,964	32.75%
	Total	*11,764*	*8,720*	*-25.88%*	*496,631*	*457,406*	*-7.90%*
Region D B.C. Rockies	AC family	2,775	1,978	-28.72%	103,353	80,296	-22.31%
	Other Domestic Carriers	80	0	-100.00%	846	0	-100.00%
	Total	*2,855*	*1,978*	*-30.72%*	*104,199*	*80,296*	*-22.94%*
Region E: Cariboo Country	AC family	1,275	1,102	-13.57%	43,442	39,035	-10.14%
	Other Domestic Carriers	544	604	11.03%	10,050	11,476	14.19%
	Total	*1,819*	*1,706*	*-6.21%*	*53,492*	*50,511*	*-5.57%*
Region F: Northern B.C.	AC family	11,111	7,261	-34.65%	535,879	379,726	-29.14%
	Other Domestic Carriers	285	679	138.25%	34,770	81,928	135.63%
	Total	*11,396*	*7,940*	*-30.33%*	*570,649*	*461,654*	*-19.10%*
TOTAL		**59,295**	**47,800**	**-19.4%**	**2,148,252**	**1,974,277**	**-8.1%**

Notes: Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

Appendix I provides a series of more detailed tables with air service capacity analyses for the year 2000 at select B.C. airports in each of the tourism regions.

- **Impact of capacity changes on Tourism Region A – The Islands** There are four significant airports in this region, at Victoria, Campbell River, Comox and Port Hardy, as well as several smaller airports. Overall the region experienced a 13% decline in flight frequency from YVR and 1% increase in seat capacity.

- **Impact of capacity changes on Tourism Region B – Vancouver Coast & Mountains** The Vancouver International Airport (YVR) is the principal air gateway to the Vancouver Coast & Mountains having the potential to handle over one million passengers in August 2000 alone. Abbotsford Airport is the next largest airport within this tourism region's boundaries, but handles only a fraction of the region's air capacity. Powell River is the third airport in the region. As the analysis is focused on services from the YVR gateway into the region, only Powell River's services are included. There was a 2% decline in flight frequency and 18% decline in seat capacity.

- **Impact of capacity changes on Tourism Region C – Thompson Okanagan** This tourism region in the southern central interior of British Columbia has three significant regional airports, Kamloops, Kelowna and Penticton. Overall the region experienced a 26% decline in air services from YVR and an 8% decrease in seats.

- **Impact of capacity changes on Tourism Region D – B.C. Rockies** This tourism region in the southeastern interior of British Columbia has two significant regional airports at Castlegar and Cranbrook. Overall capacity declines in the region was highest among the B.C. Rockies. Flight frequency from YVR declined 31% and seats are down 23% for the year.

- **Impact of capacity changes on Tourism Region E – Cariboo Country** This central B.C. tourism region has airports in Quesnel and Williams Lake receiving service from the AC family. There are also several smaller facilities. Overall the region experienced a 6% loss in frequencies and seat capacity from YVR.

- **Impact of capacity changes on Tourism Region F – Northern British Columbia** Airports at Prince Rupert, Terrace, Sandspit, Smithers, Fort St. John, Dawson Creek and Fort Nelson serve the Northern B.C. tourism region. This tourism region saw a 30% reduction in frequencies and 19% decline in seat capacity from YVR.

3.1.4 Conclusions on Air Capacity Changes

Overall, domestic air services have declined. However, the level of impact does differ by tourism region within the province. Because of AC's focus on building traffic at the YVR gateway, the Vancouver Coast & Mountain Region does somewhat better than the rest of the province in terms of offsetting service gains from independent air carriers.

Although there has been a peak season increase in transborder air services to the province, over the full year a marginal seat reduction of 3% is expected. Capacity for other international services to B.C. will experience a net AC and overall gain for the year. While peak season transborder and overseas services have increased to the YVR

While peak season transborder and overseas services have increased to the YVR gateway, beyond-the-gateway operations have declined due to the cutbacks in domestic service.

gateway, beyond-the-gateway operations have declined due to the cutbacks in domestic service resulting in decreased access. In addition there has been a loss of price competitive access among foreign carriers as discussed in **Section 2.4.3.**

3.2 Air Traffic Measures for British Columbia

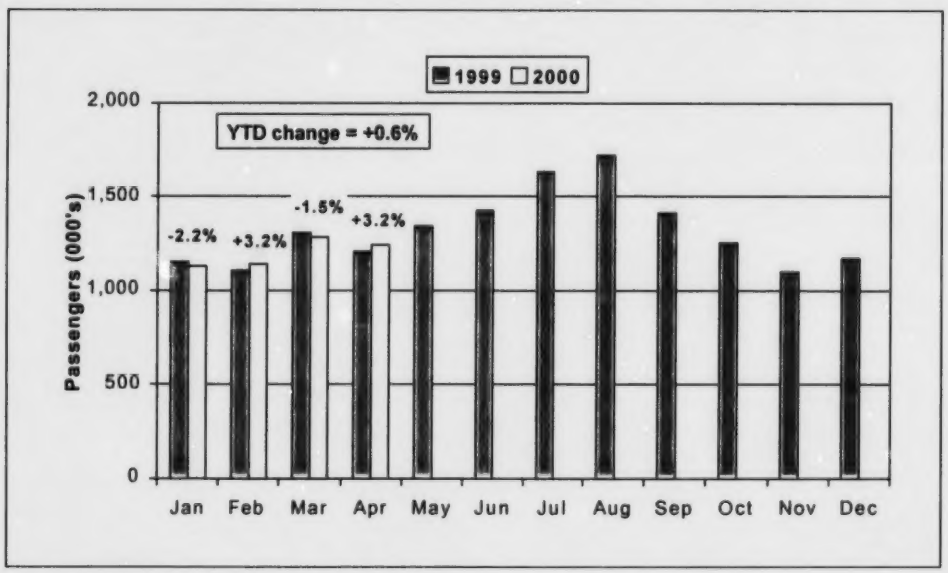
Evaluation of industry restructuring should also include monitoring of the changes in air passenger traffic levels for British Columbia. On an aggregate level, measures of both airport activity and air carrier activity should be tracked. Sector and route specific information, where available, should also be utilised.

Ideally, measures presented on passenger activity levels should distinguish between inbound (visitor) and outbound (resident) travel. Unfortunately, such data is not available.

3.2.1 Passenger Activity Levels at British Columbia Airports

Available year-to-date activity statistics for Vancouver International Airport (YVR) and Victoria International Airport (YYJ) are presented in **Figure 3-5** and **Figure 3-6.**

Figure 3-5: YVR Total Passengers (January–April 1999 versus January–April 2000)



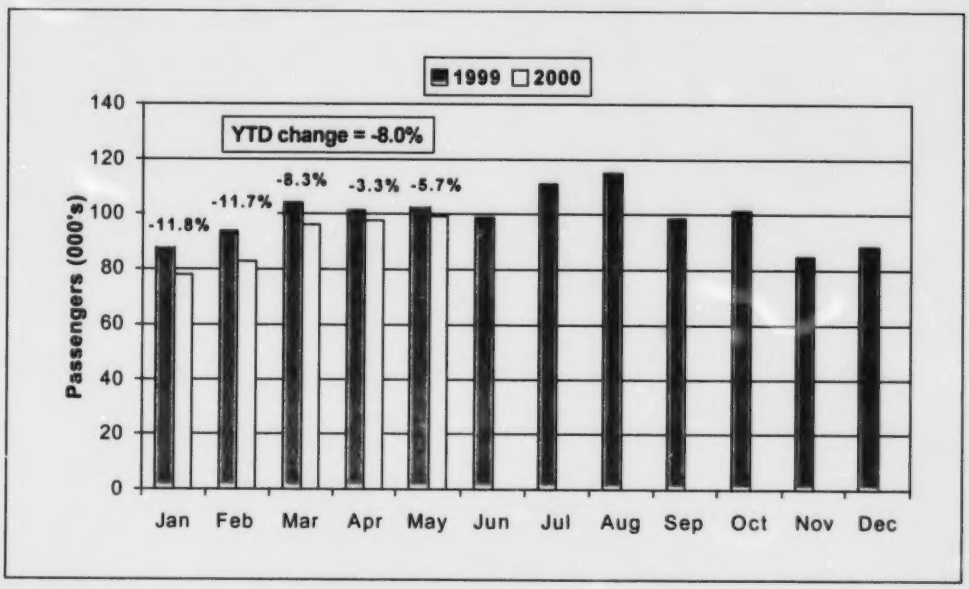
Source: Vancouver International Airport Authority.

Figure 3-5 illustrates changes in YVR passenger traffic during the first four months of 2000. Overall, YVR passenger activity has grown less than 1% this year. This is a noticeable reduction from the growth recorded at YVR in previous years. Growth exceeded 4.5% per year in every year from 1993 to 1998. 1999's growth was lower at 1.9%, but still much higher than the 0.6% year to date in 2000.

The growth patterns vary considerably by sector. Domestic traffic at YVR has decreased 1.8% during the first four months of 2000. Transborder passenger activity dropped marginally by 0.3%, while overseas passenger traffic is up 8% to date for the year.

Traffic at Victoria International Airport shows a year to date decline of 8% as of May 2000. A representative from the Victoria Airport indicate that the declines are related to high growth achieved in 1999 creating a base of traffic which proved difficult to maintain in 2000. Some of the 1999 increase was attributed to the Leonardo da Vinci exhibit at the provincial museum. The mix of traffic at Victoria is predominately domestic with some transborder and international services (See Figure 3-6).

Figure 3-6: Victoria International Airport Total Passenger Traffic



Source: Victoria Airport.

A preliminary examination of traffic activity at other airports in the province revealed mixed rates of growth/decline. Traffic at Kelowna and Cranbrook airports is marginally higher in early 2000. Airports such as Fort St. John and Kamloops have experienced declines in traffic through early 2000. Thus, changes in traffic appear to be market specific and vary depending on services offered by non-AC family carriers, particularly WestJet and Pacific Coastal.

Preliminary examination of traffic activity at other airports in the province revealed mixed rates of growth/decline.

3.2.2 Passenger Activity Levels Among the Air Carriers

Within Canada, confidentiality provisions limit access to detailed information on passenger activity. The scheduled carriers in the AC family and WestJet publish aggregate level traffic

results on a monthly basis, however. The carriers report monthly capacity measured in available seat miles (ASMs) on both a system-wide and sectoral basis. Traffic figures are reported in revenue passenger miles (RPMs), with load factors determined by the percentage of RPMs to ASMs. At present, capacity and activity information is available only to the level of domestic or international sectors.

Changes in monthly domestic load factors for Air Canada, Canadian Airlines, Canadian Regional and WestJet are summarised in **Appendix J** for the period of January through May 2000.

Monthly domestic load factors on AC and CP increased respectively 5 and 6 points in May 2000 over May 1999. Load factors reached 79% and 76% in May 2000, high industry levels for off-peak season.

- **Domestic load factors on Air Canada and Canadian Airlines** In May 2000, Air Canada flew 13% more domestic revenue passenger miles (RPMs) over the same month of 1999. Domestic capacity *increased* by 4% per cent, resulting in a passenger load factor of 79.3%. This compares with a 73.1% load factor in May 1999. AC's year-to-date domestic capacity and traffic are up (5% and 12% respectively), resulting in a 4.2 point load factor increase to 73.5%.[26]

  In the month of May 2000, Canadian Airlines reported a domestic capacity *decrease* of 25%, while system traffic (RPMs) *decreased* 19%. However, the domestic load factor *increased* 5.1 points to 75.8%. CP's year-to-date domestic capacity and traffic are down 22% and 19% respectively. In contrast, year-to-date load factors are up 2.7 points over the previous period to 69.4%.[27]

- **Load factors on WestJet** In May 2000, WestJet flew 72.1% more revenue passenger miles over the same month of 1999. Capacity *increased* by 61.4% per cent, resulting in a passenger load factor of 75.3%, compared with 70.6% in May 1999.

- **Transborder load factors** Data to the level of city pairs is available for U.S. carriers (and some reporting Canadian carriers) operating flights between Canada and the United States. As the U.S. Department of Transportation places a 6-month restriction on the release of this data, an assessment of transborder load factors relevant to industry restructuring could not be completed at this time.

3.2.3 Conclusions on Air Traffic Measures

Preliminary airport information indicates that the growth rate has declined at the YVR gateway and domestic traffic has fallen off at other B.C. airports. Among the AC family

[26] Air Canada Reports Unconsolidated May Traffic (June 14, 2000 Press Release).

[27] Canadian Airlines Reports May Operating Statistics (June 14, 2000 Press Release).

carriers, both domestic year-to-date capacity and traffic have increased for Air Canada. In contrast, Canadian Airlines has suffered significant declines in year-to-date domestic capacity and passenger traffic. Although its market share is small relative to the AC family, WestJet traffic has increased by almost 60% for the year to date period ending in May 2000. The change in domestic year-to-date load factors is positive for Air Canada, Canadian Airlines and WestJet.

The airline restructuring process is in the early stages and the time lag associated with the reporting of traffic activity hinders the monitoring process. In addition, there are a number of significant data shortfalls. For the tourism industry to effectively track traffic levels to/within Canada, passenger activity data by air carrier and by city pair route is needed. At present, this traffic data is accessible only for transborder routes with a six-month time delay.[28] To develop a program to track and monitor the impact of airline restructuring on passenger activity, this more detailed information is needed from the air carriers, government or other industry sources.

A key strategy to effectively monitor traffic activity involves actively pursuing route and carrier specific data from airline or alternate sources.

3.3 Airfare Levels

Airlines do not charge a single price for their services. They offer a wide range of published airfares, each with different restrictions on the purchase or use of the ticket. Fares for first, business and full economy class have fewer purchase requirements and restrictions than discount fares. Discounted excursion fares utilised by leisure travellers tend to be heavily laden with restrictions such as minimum stays, advance purchase requirements and/or cancellation or change-to-flight penalties due to the various ticket schemes. The range and type of discounted airfares often varies between city pair markets, particularly in relation to route competition and capacity.

The airline industry uses *yield* as its measure of unit revenue. Airline yield includes a distance component and is measured by the average fare per mile or kilometre. Within Canada, yield data by carrier is not publicly accessible information. As such, the report discussion will focus primarily on the limited data that is available for average airfares sold within Canada. Average airfares are calculated by the total sales to a destination region divided by the number of tickets sold. It is important to distinguish between published fares, yields and average fares sold. It is widely expected that published fares will be relatively constant, likely with increases limited to the rise in inflation. However, a reduction of the

It is widely expected that published fares will be relatively constant, likely with increases limited to the rise in inflation.

[28] U.S. Department of Transportation T100 International & U.S. Domestic Traffic Statistics.

number of seats available at low fares, is one of a range of factors that could lead to increased average airfares (and/or yields) for the Air Canada family.[29]

There are a number of ways to regulate a dominant airline's prices. The approach used in previous eras was to regulate individual fares. This is also the approach chosen by the Ministry of Transport in Bill C-26: the Canadian Transportation Agency (CTA) can order fare changes in monopoly markets *upon complaint.*[30] In contrast, the trend elsewhere in the world when regulating monopolies is to regulate yields. This method gives the regulated firm more managerial flexibility and prevents it from exploiting its monopoly by simply changing the number of discount seats available.

3.3.1 Published Airfares

Airlines submit airfares and fare related data to the Air Tariff Publishing Corporation (ATPCO).[31] Airfare information is then distributed to global distribution systems (GDS) such as Amadeus/System One, Galileo International, Sabre, Worldspan and computer reservation systems (CRS). ATPCO provides the CRS/GDS networks with the opportunity for a single source of fare related data. Airfares filed through the ATPCO and CRS systems serve as the source of data for this analysis of published airfares.

In most markets, available published airfares provide a good indicator of the range airfare prices between two city pairs. However exceptions exist.

In most markets, published *available* airfares provide a good indicator of the range of airfare prices between two city pairs. However, published airfares are not always the most reliable source of the lowest airfare levels available in the marketplace. There are a number of exceptions related to network of travel industry consolidators, the emergence of e-commerce sales and alternate distribution channels used by low cost carriers. A detailed discussion of the limitations of the published airfare data appears in **Appendix K.**

A number of cautions must accompany any evaluation of fares. Published fare data does not lend itself well to cursory comparisons for the following reasons. First, most major city pair markets have numerous airfares available at any given time. This is especially true of the lower fare levels most attractive to the leisure traveller. Each airfare has different rules,

[29] For the next few years, Air Canada's limiting fare increases is part of the public service obligations required by the Ministry of Transport.

[30] There is an initial two-year period during which the CTA may review fares on its own initiative, but after that it can review only upon complaint.

[31] ATPCO is the global leader in the collection and distribution of airline fare and fare related data. Airfare information is collected from over 550 airlines and distributed to global distribution systems (GDS) such as Amadeus/System One, Galileo International, Sabre, Worldspan) and computer reservation systems (CRS). ATPCO is owned by a group of 24 airlines, which include Air Canada, United, American Airlines, British Airways, and a number of other U.S. and international air carriers.

restrictions and applicable sales periods. Second, discount fares vary greatly by season and change constantly. Third, due to competitive forces, airfares do not always increase proportionally with distance. For example, competitive discount airfares are more likely to be offered between major cities than between small regional municipalities.

Airfare comparison must include cautions. Published airfares data does not lend itself well to comparison at the lower fare levels.

Given the above caveats, a group of key domestic, U.S. and international tourism markets for B.C. was identified for the airfare analysis. Two fare classes were selected for the analysis, economy and excursion. A full/or marginally discounted economy airfare (Y or Y#) is included as it tends to be relatively stable. The high season roundtrip excursion airfare is also presented because it is the most likely to be used by the leisure traveller.[32] Published fare data for Air Canada was gathered for August 1999 and August 2000. Every effort was made to compare the same fare types or those fare types with consistent rules year over year. (In many cases, this prevented selecting the *lowest* available high season excursion). All fares are in local currency and no adjustments for inflation have been made. All fare tables appear in **Appendix L.**

- **International Published Airfares to YVR**

  The data indicates that the full and discounted economy airfares are relatively stable and on average have increased 3% in all markets selected. With the exception of London U.K, return excursion fares from international destinations to Vancouver have also experienced only a minimal increase.

- **Transborder Published Airfares to YVR**

  Increases in excursion airfares from Chicago, Los Angeles and San Francisco were slightly greater, ranging between 5% and 8%, than the 3-4% noted for economy fares.

- **Domestic Published Airfares to YVR**

  Full economy fares also increased 3% in the domestic market. It is more difficult to draw conclusions about the discounted excursion airfares within Canada. Among the same fare type, rates went up from Toronto and down in other markets. In addition to lower fares, Halifax and Montreal have benefited from new YVR service.

- **Domestic & Transborder Published Airfares to B.C. Destinations**

  The same analysis was completed for two other destinations in British Columbia, Kelowna and Smithers. (See Appendix L.) The tables include the same transborder and domestic origin cities, but exclude the international origin cities. The Kelowna data shows similar 3% increases among all the full/discounted economy (Y) airfares, and

[32] High season was selected, as this is a prime tourism season. As prices vary considerably by season, the excursion airfares presented do not reflect the lowest rate available by market.

similar 4% to 10% increases in the transborder excursion airfares. The domestic excursion airfares ranged from a minimal change of less than 1% in some markets to close to 38% in one excursion fare type from Winnipeg. Excursion airfares to Smithers from points in Canada ranged from –5% from Calgary to +7% from Montreal and Winnipeg.

- **International Add-on Fares to B.C. Destinations**

  For many international travel routings, published "through" airfares are only available between major cities. Airfares to smaller cities and town must be calculated based on the airfare to the gateway city, plus add-on airfares or "arbitraries". Similar to all other structures, there are numerous levels of arbitraries that may apply based on the type of fare that the passenger is using to reach the gateway airport and the travel routing (e.g. Pacific, or Atlantic routings). Data tables in Appendix L summarise the arbitraries applicable for travel from the gateway airport to Kelowna and Smithers (for Y/Y# and excursion airfares). There is no change in the Air Canada pricing of arbitraries from August 1999 to August 2000. **Appendix K** includes a discussion to explain the distinction between setting of published "through" fares charged to passengers and the behind the scene division of revenue among the air carriers (or "proration" of fare).

3.3.2 Average Airfares for Ticket Sold

This section focuses on actual airfares sold, as opposed to the published airfare levels presented earlier. Consumers in the United States have access to on-going and detailed customer service and performance information for the U.S. domestic carriers.[33] In contrast, confidentiality of airfare sales data within the Canadian aviation industry currently restricts the level of detail that can be presented. Limited Canadian data on average airfares (or the average prices paid by fare paying passengers) is available through the International Air Transportation Association Bank Settlement Plan (IATA BSP Canada).[34] Some average airfare data has also been obtained from the air

Confidentiality of airfare sales data within the Canadian aviation industry currently restricts the level of detail that can be presented.

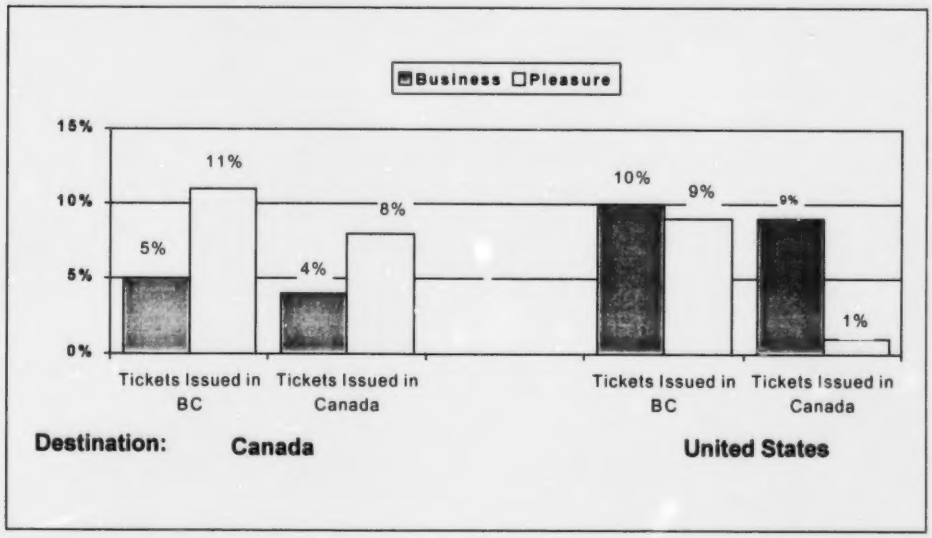
[33] The U.S. Department of Transport publishes a monthly Air Travel Consumer Report, which includes information on service quality elements such as flight delays, oversales and consumer complaints. In response to public inquires the Department also releases a quarterly fare report for U.S. domestic airline prices. The report includes the top 1,000 city pair markets with average one way fares for the largest carrier in the market and the lowest fare carrier, and data on average yield (fare per mile). The report also includes city pair markets with the largest year-over-year percentage change in average airfares.

[34] The International Air Transport Association (IATA) operates the Bank Settlement Plan (BSP) for carriers and participating travel agents. This provides a service for the air travel industry similar to the cheque clearing house system of the Bank of Canada for the banking industry. Note that not all airline tickets are sold via the BSP. This is discussed further in Appendix K.

carriers and published by Statistics Canada.[35] The Statistics Canada data provides a slightly better level of detail than the IATA BSP data, but is not current enough to relate to the issue of restructuring of the airline industry.

The IATA BSP Canada data represents average airfares for *scheduled air services sold in Canada by the travel agency community.* Average airfares can be delineated by the location of the agency selling the ticket (Canada-wide, individual provinces, or even postal code units via customised data runs). At this level, reasonable inferences can be made about the location of the travel agency and the originating airport for the trip. However, the trip destination is only broadly categorised into one of ten worldwide regions, making any average fare data at the city pair level inaccessible. The data set offers average airfares for specific regions of sale in Canada to worldwide destination regions (e.g., sold in Vancouver with a destination in Canada, or sold in B.C. with a destination in Asia). The data is also classified by trip purpose, although there is some subjective interpretation involved. The major issue with this data is that represents *outbound* average airfares, rather than *inbound* average fares purchased by visitors to the province. However, for average airfares *sold within Canada to Canadian destinations*, the outbound airfares will include *inbound* travel to British Columbia. If not specific to British Columbia, these average airfares *sold in Canada to Canadian destinations* will provide a reasonable top-line indicator of average airfare sales and trends within the country. A number of limitations to the IATA BSP data are discussed in Appendix K. **Figure 3-7** provides the percentage change in average airfares sold in British Columbia and in Canada to destinations in Canada and the United States. The percentage change figures represent averaged data for sales in January to May 1999 and for the same period in 2000.

Figure 3-7: Changes in Average Fares Sold in Canada to North American Destinations (January-May 1999 versus January-May 2000)



[35] The Daily, Average Airfares for 10 Major Cities, 1983-1998, Statistics Canada, Catalogue 11-001E, June 5, 2000.

Figure 3-7 shows that average airfares sold in B.C. for travel to a destination in Canada increased by 5% for the business traveller and by 11% for the leisure traveller between 1999 and 2000. The average of all airfares sold in Canada for domestic travel increased by slightly less, 4% for the business traveller and 8% for the vacationer.

To provide a reference point for the Canadian destination data, changes in average airfares to the United States are also presented. The average transborder airfare sold in B.C. increased by 10% for the business traveller and 9% for the vacationer. In general, the average airfare bought in Canada for travel to the U.S. increased by 9% for the business traveller and 1% for the vacationer between 1999 and 2000.

Actual dollar value of the average fares sold in Canada and British Columbia are presented in **Table 3-5**.

Table 3-5: Average Fares Sold in Canada to North American Destinations (January-May 1999 versus January-May 2000)

Destination Region	Trip Purpose	Average Fares sold in B.C.			Average Fares Sold in Canada		
		YTD May-99	YTD May-00	%	YTD May-99	YTD May-00	%
Canada	business	$ 603	$ 636	5%	$ 725	$ 754	4%
	pleasure	$ 364	$ 404	11%	$ 431	$ 465	8%
United States	business	$ 842	$ 930	10%	$ 963	$ 1,050	9%
	pleasure	$ 379	$ 413	9%	$ 407	$ 411	1%

Changes in outbound average fares from Canada to international regions appear for interest only in **Appendix M**. The average international fares sold in Canada are included to demonstrate the difficulty in accessing relevant data and relating the information to changes that may have Canadian airline industry restructuring as the root cause. The differences between inbound and outbound market conditions among international travel sectors are too large and the regions are too broad to draw any meaningful conclusions on average airfares. Factors that are unique to each route, including traffic and capacity provided by a competitor, are constantly changing which causes prices to fluctuate accordingly.

3.3.3 Airfare Pricing Conclusions

As airline restructuring in Canada is at a very early stage, only preliminary information could be presented on airfares and average fares sold. Although published airfares are readily accessible, the complexity of airline pricing systems makes comparison difficult. Compiling domestic airfare sales data also presents a number of challenges due to the confidentiality of the data within the Canadian aviation industry. Accessibility to meaningful international airfare data is equally problematic. Nevertheless, some *preliminary* conclusions are possible based on existing information. The early information available on the merger's initial impact on fares lends support to the anecdotal evidence in the industry and is summarised as follows.

- **There are no significant *fare* increases taking place.** Preliminary evidence gathered in the review of select city pair markets is consistent with this conclusion. On average, the full/discounted economy airfares increased 3% over the previous year. Other fare levels increased at various rates, remained the same or declined.

- **A new discount program has been introduced.** In a recent development, the AC family announced the introduction of new lower fare levels to and from 75 small communities in Canada. The increased access to lower fares has been offered in response to feedback from customers and the travel community. The goal of the new policy is to ensure fair and consistent pricing throughout the Canadian domestic network. The new discounts will apply to more than 700 routes, representing 30% of the carriers' markets in Canada. The average discount is 38% off the *current lowest year round published fare.* While it is early to assess the impact of the fare reductions, it is known that this is a previously existing fare program, but which is now being expanded to include a range of smaller communities that were previously excluded. Although only 30% of the AC market is included in the program, the fare reductions are applicable to routes involving a number of BC destinations.[36] In comparison to the previously available fare levels between these city pairs, the discounts are significant.[37] It should be noted that greater fare reductions are available between major city pairs within Canada and between city pairs with WestJet competition. What is required to provide an assessment, but is unknown at this time, is whether meaningful numbers of seats will be available at these fares. This is of particular concern given the reduction in capacity on a number of intra-B.C. routes.

- **The number of discount airfares may have been reduced.** January-May 2000 data on average fares purchased in Canada provide an indication of the direction that ticket sales have taken for travel in Canada. Average fares for pleasure trips have risen at roughly three times the rate that full fares have risen.

  Average airfares could rise for a number of reasons, including: (a) increases in published fare levels; (b) a decreased proportion of sales of the lower promotional fares; (c) shifts the Canadian travel patterns towards long haul domestic travel (vs. short haul) or destinations which traditionally have fewer promotional fares; (d) a shift in the market, such as increased business travel, which increases the proportion of sales of the more costly fare classes such as business and full economy; (e) change in ticket distribution channels which favours lower cost ticket sales through airline direct

---

[36] For example, Toronto-Smithers, Toronto-Quesnel, Toronto-Dawson Creek, Toronto-Cranbrook now include lower fare levels under QCANADA and VCANADA fare types. A check of city pairs involving YVR and intra-B.C. points revealed a mix of Q and V fare types and levels. The YVR-Kelowna route with WestJet service had a series of very competitive airfares. However, discounts in other intra-B.C. markets were much more limited.

[37] An AC example included fares between Dawson Creek and Toronto. Previously, the lowest high season return fare was $1339 (HH7LNR fare basis). AC currently lists two lower return fares as $729 (QHCANADA) and $804 (VHCANADA). The fare rules are the same for the two lower rates, but the inventory booking codes differ (Q vs. V). The same fare types from the closest major city of Edmonton to Toronto are $609 and $684. However between Edmonton and Toronto, there are also lower fare levels of $559 and $499 available.

channels.[38]

Item (a) can likely be eliminated as the published airfare data examined indicates increases in fare levels only in the 3% range. We are unaware of any major shifts in travel patterns or a shift towards business and full tare tickets. Any changes in the distribution of lower value fares are likely minor as AC distributes only few percent of tickets through the internet. Thus, the evidence is suggestive that the driver of increased average airfare levels is decreased availability of tickets at discounted fares. Nevertheless, it is not possible to definitively assert that the availability of discount fares has been reduced. Given the importance of this topic to the tourism industry, it will be essential to establish an effective tracking mechanism to monitor changes.

Key strategies to deal with fare concerns will be:

- **continued monitoring of average fares.**
- **active pursuit of alternate, sources of detailed average airfare data.**
- **obtain quantitative feedback from inbound tour operator community.**

- **Competition brings average fares down.** In markets with significant competition, such as Vancouver-Kelowna, there are substantial fare savings taking place.

InterVISTAS cautions against relying solely on preliminary and anecdotal information. At this early stage, the best approach for gathering solid evidence for trends in yields would be (a) to continue the monitoring of average airfares sales in Canada; (b) active pursuit alternate data sources for inbound average airfare data; and (c) to gather qualitative and quantitative information from the travel agents and tour operators community to combine with data available from other sources, and (d) to urge the Federal Government to collect and report on changes to fares, average fares and capacity at various discounted fare levels.

3.4 Airline Routings

Air Canada is pursuing a strategy of using its new critical mass to become a major international air carrier. It sees its primary opportunity in providing increased levels of service to U.S. and overseas travellers to and through Canada. Accordingly, it is shifting its capacity from domestic to transborder and overseas markets.

From the national analysis recently conducted for Tourism British Columbia, it also seems to be the case that AC is shifting domestic routings to overfly Toronto (E.g., Vancouver-Halifax, Winnipeg-Montreal, Edmonton-Montreal). This will allow it to conserve capacity at Toronto for overseas services. However, a consequence is reduced connectivity between the

[38] The source of data excludes certain types of sales made direct by the carrier to the consumer.

number one gateway and other domestic markets. Toronto has service from a number of European air carriers (Swiss Air, Sabena, etc.) that would require flight connections to reach British Columbia.

With respect to routings, visitors to British Columbia are marginally better off by the summer 2000 schedule. For transborder travellers there are new, daily non-stop services to and from Vancouver introduced in Summer 2000. Three transborder destinations have been added to Vancouver since the realignment of AC/CAI routes. Starting June 5, 2000 there are daily round trip services between Washington (Dulles) and Vancouver, and between Denver and Vancouver.

Among international travellers, Asian travellers will enjoy improvements in existing services on a number of routes. Visitors from Hong Kong benefit from a frequency enhancement of twice-daily service and visitors from Seoul can now take advantage of daily service. The gains to travellers due to the increased access to British Columbia via Air Canada/Canadian Airlines flights are diminished by the inconvenience experienced by some transborder and international tourists. These passengers would be expected to have difficulty attaining connecting flights at competitive fares to continue on to destinations within the province.

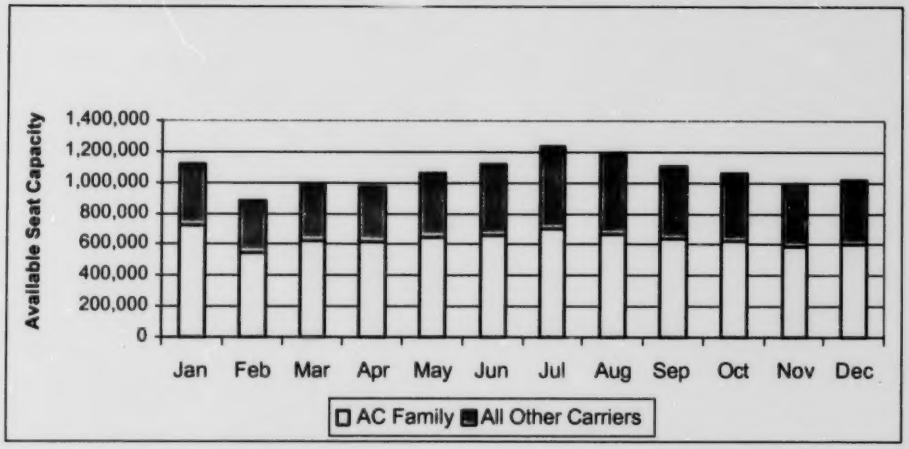
Domestic travellers benefit from generally better connectivity East to West since the schedule rationalisation began. Non-stop, long haul service to and from south western B.C. includes new Vancouver – Halifax and Victoria – Toronto daily services. There are also new, hourly Vancouver – Toronto shuttles. The Vancouver-Halifax non-stop flight is evidence of the growing trend to over-fly Toronto. Since bypassing Toronto decreases time spent by approximately 1½ hours, the added convenience is significant. Avoiding the extra landing and take off reduces the cost to the airline and as a result fares may fall slightly. Vancouver is now considerably more accessible from domestic travellers across the country as the list of non-stop services includes Calgary, Regina, Saskatoon, Winnipeg, Toronto, Ottawa and Halifax.

4.0 Future Changes

4.1 Introduction

The previous chapter discussed the impact of the schedule changes implemented by the Air Canada family in the first half of 2000. These will not be the only changes that AC will implement. Further changes should be expected in Fall/Winter 2000 and beyond. However, it should be cautioned the Fall/Winter 2000 schedule will have reduced capacity simply due to seasonal effects. **Figure 4-1** demonstrates this, showing how capacity changed (Air Canada and total domestic) over the months of 1999. A comparison of August to November 1999 for AC family service shows that the seasonal ratio is 87%.

Figure 4-1: Seasonality of B.C.'s Air Seat Capacity 1999



Source: OAG Max February and August data disks.

Having cautioned that the Fall/Winter 2000 schedule will have a normal seasonal downsizing, this chapter now examines effects of airline industry restructuring which *may* show up in the future.

4.2 Is the Worst Over?

Arguments for "the worst is over". The key question is whether the Summer 2000 schedule represents the bulk of the service cuts by AC/CAI. Arguments supporting this include:

- A significant reduction in domestic capacity was achieved in the Summer 2000 schedule. During August 2000, there was a 17% reduction in domestic flights by the AC family in B.C. and a 10% reduction in seats, squeezing out much of the excess capacity in the market.

- AC has made a commitment to no involuntary employee layoffs or forced re-locations for two years.

- Further reductions in capacity would tempt other carriers to start up.

Arguments for "more to come". On the other hand, the following arguments might be put forth to suggest that further reductions are coming:

- It was unlikely that AC would make unacceptable service cuts while legislation (Bill C-26) to regulate the airline was before Parliament. Service cuts that are too aggressive might have induced Parliament to impose more severe regulation or allow U.S. carriers to enter the market. Now that Bill C-26 is in effect, further cuts could be possible.

- Some believed that prior to the Summer 2000 schedule announcements that domestic markets would eventually be cut by 30-40%. The smaller level of cuts suggests that further reductions may be possible.

- AC should be expected to offer early retirement or voluntary severance packages to labour (especially at Canadian Airlines), allowing it to further shed capacity. It had indicated it expected to achieve voluntary reductions of 2,500 employees. In any event, in 2002 it will be able to reduce flying and labour.

- The highly appreciated introduction of larger aircraft into many regional markets may be temporary. Why would the carrier push low cost third tier carriers with 19 seat aircraft out of markets in favour of its higher cost 37+ seat aircraft, except for the requirement to retain labour during the transition? When Air Canada is able to shed labour and adjust its fleet, these airports should be cautioned that the previous types of service (smaller aircraft) may return.

- Air Canada should be expected to phase out entire aircraft types from its fleet. The F-28 is a clear target for retirement, especially given the recent increase in fuel prices. This aircraft has high operating costs that are exacerbated by recent fuel price increases. The removal of this aircraft type from the fleet may leave holes, which would not be fully plugged by new, expensive aircraft. Service reductions would be the outcome.

It is the opinion of InterVISTAS Consulting Inc. that the possibility of further service cuts must be seriously considered.

Assessment. It is the opinion of InterVISTAS Consulting Inc. that the possibility of further service cuts must be seriously considered. In part, this is based on the observation that many of the service enhancements, such as larger aircraft, were experimental and if year-around loads are not acceptable, these services would be cancelled or replaced with a lesser service. In part, our opinion is based on the fact that the April schedule was developed in an amazingly short period of time, and significant refinement will take place to reduce costs and shed capacity making low contributions to the carrier's bottom line. In the following sections, indications of the nature of these expected service cuts are presented for

the schedules from Winter 2000/2001 through to Summer 2002. First, the key drivers of future changes are discussed.

4.3 Key Drivers of Future Changes

Over the next several years there may be ongoing adjustments to AC's schedule. The changes would incorporate:

- **A diminishing labour force**. Reductions in the combined AC/CAI labour force could begin later this year through attrition and voluntary severance. In its offer to purchase CAI, AC indicated it would reduce the labour force by 2,500 or 6.7% of the combined labour pool. Part of this should be expected to result in further reductions in flying.

  In March 2002, AC's self-imposed moratorium on employee layoffs will be lifted and it can set any labour reduction target it wants.[39]

- **Fleet downsizing and renewal.** This activity began earlier this year with the shedding of CAI's DC-10 fleet. It should be expected that AC may also eliminate the following aircraft types within the next few years:

  - 17 DC-9s;
  - many of the 44 737s (a few may be retained for service with the proposed Air Canada Lite);
  - 32 Fokker F28s;
  - 10 BAE-146;
  - and possibly the Dash 8-100.

  For the most part, these aircraft are older, less efficient types.[40] Air Canada's intention to become a world class carrier would dictate that older aircraft types be phased out of its fleets. As well, the carrier's improved financial position would be make fleet renewal economically possible. Although some aircraft will be acquired, it is expected that the net fleet capacity may be lower for a number of years.

- **Strategic redeployment of aircraft to international markets.** As AC makes a push to become a *sixth-freedom carrier*, connecting U.S. travellers to Europe and Asia, some aircraft will likely be further redeployed from the domestic market to transborder and international routes. Air Canada has been explicit in stating its intention to do so.

---

[39] Air Canada's self imposed commitment to no involuntary layoffs became an undertaking with the Minister of Transport on 21 December 1999, and this undertaking was incorporated into Bill C-26 which came into force in July 2000.

[40] They are also the noisier aircraft types, whose replacement by quieter aircraft would provide some benefits to airport communities.

- **Overflight of Toronto's Lester B. Pearson Airport (YYZ).** AC may continue to reallocate the constrained resources at YYZ to transborder and international flights. This could be achieved in part by increasing the number of East-West domestic flights which overfly Toronto: e.g., Vancouver-Halifax, Winnipeg-Montreal. While this may be convenient for business travellers, it may be at the expense of reduced connectivity between interior tourism destinations and the Toronto gateway. This possiblity will likely be of minor significance to interior B.C. communities.

Overflight of YYZ will reduce connectivity between interior tourism destinations and the Toronto gateway.

- **Sale of Canadian Regional Airlines (CRAL).** If CRAL is sold, AC's active fleet would be reduced by 56 aircraft. This will cause a significant capacity reduction in domestic markets. CRAL's fleet accounts for 7% of AC's fleet capacity. Initially, capacity reductions *by the AC family* of up to 40% (over and above the Summer 2000 capacity cuts) would be experienced in some regional markets as AC scrambles to find replacement capacity.

  Of course, the CRAL fleet will continue to be deployed in the market by a competitor to AC. The net effect may be beneficial, with more competitive prices, greater connectitivity to U.S. and international alliance carriers, and a medium term increase in capacity.

Having listed the key drivers of potential capacity reductions over the next few years, the report now provides more detailed comments, first for Air Canada, then for other carriers.

4.4 Future AC Changes

4.4.1 Winter 2000/2001 Schedule

The themes of the Winter 2000/2001 schedule will include normal seasonal adjustments, dealing with the potential sale of CRAL, and downsizing through voluntary labour force reduction. There will be some positive developments, but a further reduction in capacity is most likely overall.

- **Seasonal decrease in service.** The airline industry is characterised by very seasonal demand with peak month traffic at YVR roughly 70% higher than that of a trough month.[41] In Winter 2000 there will be fewer services scheduled than in the summer corresponding to the anticipated drop in demand.

- **CRAL.** As described in Section 4.3, the regional carrier will be available for purchase in the summer of 2000. If CRAL is sold, there will be big adjustments. AC would have 56 fewer aircraft in their fleet and would inevitably reduce service to most smaller

[41] Source: YVR Site Statistics.

communities almost immediately. Remaining aircraft would have to be allocated to AC regional markets across Canada.

- **Fleet downsizing.** In the Winter 2000/2001 schedule, AC may commence fleet downsizing. This will depend largely on whether CRAL is sold. If it is sold, AC will likely retain all exiting aircraft while it deals with the loss. If CRAL is not sold, then AC may commence the phase out of some aircraft types. The DC-9s, F-28s and the BAE-146 are likely the initial targets.

- **Labour buyout and retirement.** Over the next six months the AC employment base will likely decrease though retirement, both natural and induced.

- **Fine-tuning.** The schedule rationalisation for April 2000 was accomplished in a remarkably short period of time and Winter 2000 is AC's first opportunity to make serious amendments. Some new services will be cancelled if traffic levels do not generate a reasonable return for AC.

There will be some positive developments, but a further reduction in capacity is most likely overall.

- **Air Canada Lite.** This discount subsidiary of AC may begin transborder operations this winter. Some capacity could well be deployed in the West. However, transborder services are likely to be targeted at moving Canadian tourists southbound to sunspots, and thus offer little value to the Canadian tourism industry.

- **New competition.** New carriers, RootsAir and CanJet, may be operating by the Winter 2000/2001 schedule. CanJet is planning to operate between Winnipeg and St. John's, Nfld. but has no plans to serve B.C. RootsAir hopes for a start in late 2000 or early 2001 and would likely begin with transcontinental services from the Vancouver gateway to major markets. It has no plans to fly anywhere else in B.C.

- **Alliance with Delta.** AC and Delta will code share on flights to Canada from Delta's hubs in Atlanta, Cincinnati, Salt Lake City, Dallas-Ft. Worth and Portland. New transborder routes may be introduced in the schedule to take advantage of the alliance. Vancouver-Atlanta will likely be a new route, although a launch in Summer 2001 would be most probable. If launched, this will be of significant benefit to B.C. tourism. The U.S. Southeast is the largest gap in the transborder route system at the Vancouver gateway.

4.4.2 Summer 2001 Expected Changes

The theme of Summer 2000 may include the dropping of non-performing routes and continued downsizing from voluntary labour force reduction.

- **Seasonal increase in service.** Notwithstanding other transitory adjustments there will be a seasonal increase in AC's service to accommodate summer traffic.

- **Schedule attrition.** Routes that have not provided AC with acceptable returns could be dropped. Many of the routes added in summer 2000 will be vulnerable.

- **Additional Transborder and Other International Service from YVR.** Consistent with AC's plans to grow the transborder and other international markets, YVR might gain some additional services (frequencies or routes) to non-domestic destinations.

- **Labour downsizing.** Retirements and voluntary severance will continue to reduce the AC labour force impacting on the types of aircraft flown. With a smaller employment base, it will not be necessary to assign large aircraft to low-traffic markets just to utilise labour.

- **Fleet restructuring.** Air Canada will take delivery of three Airbus 330 aircraft with a combined total of roughly 800 seats for Summer 2001.

4.4.3 Summer 2002

In Summer 2002, Air Canada will largely be unconstrained. Its "no-layoff" obligations will largely have expired and fleet downsizing and renewal could be in full swing.

- **Efficient labour.** In 2002, AC will be able to downsize its labour force. Until March 2002 labour reductions are limited to a voluntary basis on account of AC's undertaking with the Minister of Transport. The extent to which the employment base is trimmed will depend on AC's future plans and collective labour agreements. AC management are indicating that their business plan calls for growing, not downsizing, the airline. Nevertheless, after it has had two years of operating as a dominant carrier, the profit potential of downsizing might be appealing to the carrier.

In Summer 2002, AC will be free to downsize labour.

- **Fleet restructuring.** In Summer 2002, the 7 Boeing 747-400s in the combined AC/CAI fleet may be retired. The reduction should be partially offset by the delivery of 5 Airbus A340s.

4.5 Future Competitive Offsets

The predictions above suggest that the AC family may further reduce their aircraft and scheduled domestic services over the next two years, simultaneously shrinking the domestic market and lowering their share of it. The purpose of this section is to investigate whether other carriers at the domestic and international levels are capable and/or willing to provide services to offset the reductions.

4.5.1 Domestic Carriers

The ability of the other domestic carriers to offset future service reductions by the AC family may be determined by comparing current and planned fleets. This is useful because the number and the capacity (seats) of the aircraft held by the independent carriers indicate how many passengers they can carry relative to the AC family. WestJet, Royal, Air Transat, Canada 3000 and Skyservice/RootsAir are the most significant domestic competitors for the AC family in this regard. Fleet statistics for these carriers and CanJet are reported in **Table 4-1** for the years 2000 and 2005 to assess the current and future states of competition between these major independent carriers and the AC family.

Fleet statistics are reported in Table 4-1 for the years 2000 and 2005.

The data for 2005 are based on currently announced plans. Fleet plans may change, of course. Often carriers are overly optimistic when announcing unconfirmed fleet additions; but it may also be the case that the plans of these carriers will expand as opportunities are discovered. Some observations:

Table 4-1: Current and Future Fleet Comparison

	2000		2005	
Carrier	**Number of Aircraft**	**Aircraft Capacity**	**Number of Aircraft**	**Aircraft Capacity**
WESTJET	16	2,000	40	5,408
ROYAL	11	2,708	11	2,708
[redacted]	23	7,341	23	7,341
CANADA 3000.CA	15	3,534	20	4,204
Skyse[illegible]	4	123	4	123
ROOTS AIR	4	1,025	13-18	2065-2715
CANJET	2	750	20-30	2500-3750
Totals for non-AC carriers	*75*	*17481*	*138*	*25,299*
AIR CANADA **Family**	436	41,212	462	47,572

Source: JP Fleets 2000.

- **WestJet** currently provides short haul service in major markets with 16 aircraft. It is planning to add 24 aircraft to its fleet by 2005 for a total of 40 by 2005.

- **Canada 3000** (15 jet aircraft), **Air Transat** (23 jets), **Royal** (11 jets) and **Skyservice** (1 jet, 3 turbo prop.) are charter carriers providing a combination of charter and scheduled service in transcontinental markets. Skyservice has reduced its inventory of jets by 4 to give RootsAir aircraft to begin operations later this year. Skyservice plans to continue operations separate from RootsAir. Canada 3000 is expecting to take delivery of 4 additional aircraft by winter 2001 and 1 in summer 2002.

- **CanJet** is a Halifax based air carrier which intends to start a service similar to WestJet but in eastern Canada later this year. It has no plans to serve any Western cities.

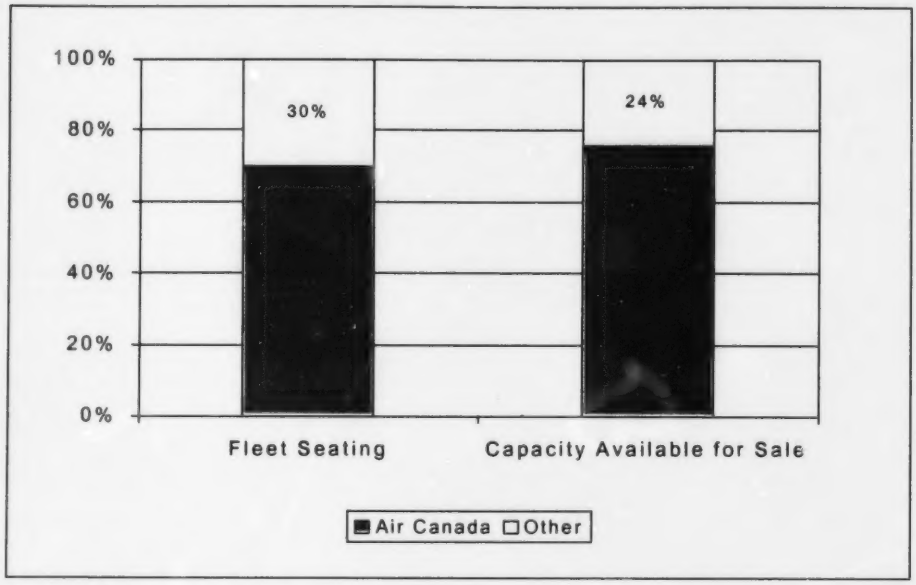
Additionally, there are third level carriers that contribute capacity in competition with the AC family such as Pacific Coastal, Air Sask and Athabaska Airways. For example, Pacific Coastal is an important carrier in British Columbia serving 13 coastal communities with a fleet of 23 turboprop aircraft and fleet seat capacity of 347.

Independent carriers account for 30% of the fleet seating capacity, but they account for only 24% of seat capacity available for sale.

Collectively, the major independent air carriers (WJ, CJ, charters) account for 70 jet aircraft currently in service, compared with 283 for the AC family. Including turboprops, these independent carriers have 73 aircraft currently in service while the AC family has 436.[42] Figure 4-2 shows that independent carriers account for 30% of the *fleet seating* capacity, but because their aircraft operate fewer flights, they currently account for only 24% of *seat capacity available for sale*.

[42] The AC family includes owned regional airlines, AirBC, Canadian Regional, Air Ontario, Air Alliance/Air Georgian/Ontario Regional and Air Nova, as well as affiliated regional carriers, Air Alma, Alberta City Link, Aviation Quebec Labrador, Calm Air, Regionair, First Air/Northwest Territorial, Air Saint-Pierre and Central Mountain Air.

Figure 4-2: Fleet Seating and Capacity Available for Sale for Air Carriers



Source: JP Fleets.

4.5.2 Cabotage

The ability of a foreign air carrier to operate in a domestic market is referred to as *cabotage*. Currently, Canada and most other nations do not allow cabotage.[43] Unlike almost every other sector of the economy, foreign firms are not allowed to operate within Canada.[44]

Allowing U.S. carriers to operate in Canadian markets could create new domestic airline competition.

Allowing U.S. (or U.K. or other foreign) air carriers to operate in Canadian markets could create new domestic airline competition. This could take the form of either negotiating a cabotage agreement with the U.S. (or other foreign government), or by the Canadian government unilaterally granting cabotage privileges to U.S. air carriers. Air Canada is strongly opposed to unilateral cabotage, but is open to reciprocal arrangements.

Cabotage rights could be granted in a number of forms, or combinations.

- *Modified Sixth Freedom (or over-the-hub cabotage).* This would allow U.S. carriers to take Canadian passengers between Canadian cities via a U.S. hub.[45] An example is

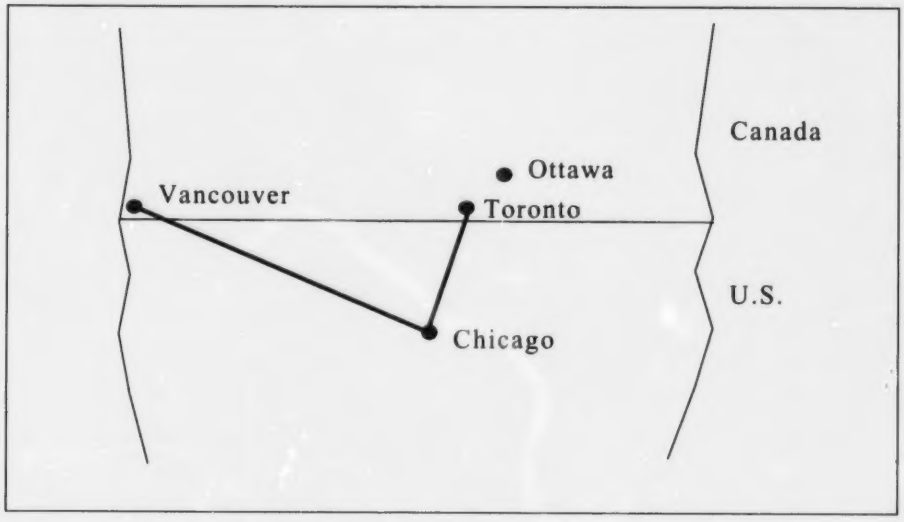
[43] There are some important exceptions in Australia and New Zealand.

[44] U.S. Rail and bus carriers, for example, are allowed to operate services within Canada. In the rail industry, consolidation is being sought by merging across the border rather than within borders. CN has proposed merging with U.S. rail carrier BN and rumours on the street suggest the CP Rail is seeking a U.S. partner.

provided in **Figure 4-3** where a U.S. carrier would pick up traffic in Vancouver bound for both Chicago and Toronto. The Toronto passenger would be served by a through or connecting flight from Chicago to Toronto. Over-the-hub cabotage is considered by many as the most likely type of service that U.S. carriers would be interested in. It is a natural outgrowth of their existing hub and spoke systems. As well, by combining some Canadian domestic traffic with transborder services, some U.S. air carriers may be able to expand the number of Canadian cities to which they provide direct service.

There are limitations to over-the-hub cabotage operations. Passengers would be required to clear both U.S. and Canadian immigration and customs on every trip, adding time and inconvenience.[46] As well, such services would be subject to substantial international departure taxes.

Figure 4-3: Over-the-Hub Cabotage



- *Right of Establishment Cabotage.* Another type of cabotage would require foreign carriers wishing to serve Canadian domestic markets to establish Canadian domiciled carriers. This is the approach used in Australia, where UK owned Virgin Airlines has established an Australian based carrier, Virgin Blue, which will soon be operating purely domestic Australian services. This "right of establishment" cabotage requires that domestic services in Australia are operated by Australian based and maintained aircraft with Australian crews and Australian support. Thus, this form of cabotage is job creating.

---

[45] The Commissioner of Competition advocated over-the-hub cabotage, but referred to its as "modified sixth freedom rights, so as to avoid the use of the term *cabotage*.

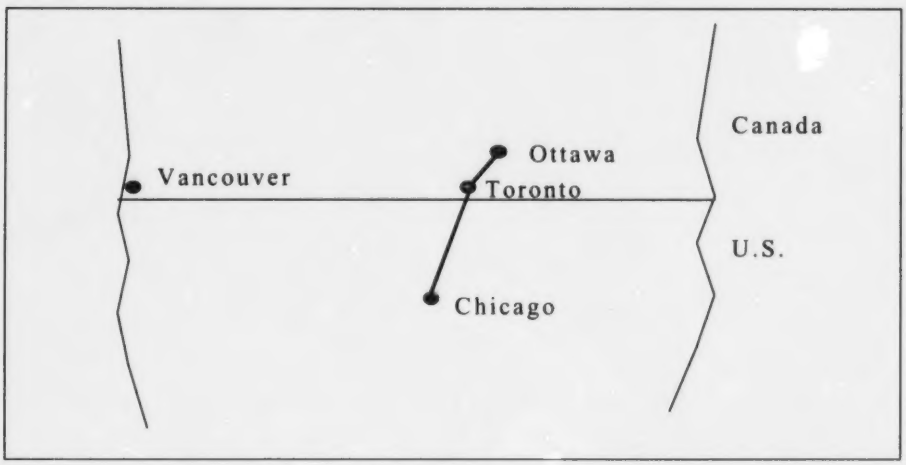
[46] Note that automated customs clearance processes, such as CanPass and INSPass, both of which are available at the Vancouver International Airport, expedite such processes.

- *Domestic Code Share Cabotage.* This would allow a U.S. (or U.K. or other foreign) carrier to sell tickets for domestic service but such service must be provided by a Canadian owned carrier. The primary advantage of this approach is that it would allow one or more of the powerful U.S. airline brand names to be used to market services in Canada which would be provided by otherwise weak Canadian brands. A hypothetical example would be marketing services under American Airlines' brand which would be a collection of services by various small regional and charter carriers.

- *Tag-end cabotage.* This would allow U.S. carriers to pick up some internal Canadian traffic as an extension of a transborder flight. Using **Figure 4-4** as an example, a U.S. carrier would pick up traffic in Chicago bound for both Toronto and Ottawa. After landing in Toronto, it could pick up Toronto originating passengers for Ottawa.

- *Pure Cabotage.* This would be the most extreme form, where U.S. (or U.K. or other foreign) carriers would operate flights within Canada with their own foreign aircraft and crews. It should be noted that a number of industry analysts are skeptical of the interest of US carriers in operating cabotage flights against a dominant Air Canada.

Figure 4-4: Tag-End Cabotage



Cabotage vs. Open Skies. It is important to note the distinction between *cabotage rights* and the Canada – U.S. Open Skies Agreement of 1995. The Open Skies agreement effectively opened the border to point-to-point airline services between Canada and the U.S. It does not allow cabotage; U.S. carriers are prohibited

The Open Skies Agreement does not allow cabotage.

to sell a ticket that connects Canadian cities through a U.S. hub within 24 hours.[47] In contrast, cabotage rights, if they were granted, would open Canadian domestic routes to U.S. carriers without restrictions.

Negotiations with the U.S. There are no current discussions between Canada and the U.S. on the issue of cabotage. U.S. Secretary of Transportation Rodney Slater indicated that the U.S. would be willing to undertake such discussions should Canada request discussions.[48] Canadian Transport Minister Collenette has clearly indicated that he has no intention of considering cabotage as an option until there is evidence that Canadian air carriers are unable to provide effective competition to AC. If Canada were to seek bilateral discussions on reciprocal cabotage, the complexity of the issues would likely require a multi-year negotiation. As well, U.S. federal law would have to be changed to allow cabotage.

Cabotage with the U.S. is not the only option.

Cabotage with other nations. Cabotage with the U.S. is not the only option. Other pro-competitive nations may be willing to negotiate and trade cabotage rights with Canada. Two candidates come to mind. The first is the U.K. Virgin Airlines which has been seeking rights to provide domestic services within the U.S. and has been lobbying the U.S. Congress for such privileges. It is already launching domestic services within Australia, one of the only nations in the world to allow domestic operations by foreign owned carriers. Virgin may be willing to launch domestic service in Canada, if for no other reason than as a demonstration to the U.S. Congress of the types of benefits which the U.S. could achieve if it granted cabotage privileges. Virgin is launching domestic service in Australia this summer with the brand name of Virgin Blue. Australia has a significantly smaller domestic market than Canada, and is already served by two financially healthy domestic carriers.[49]

The other country that may be willing to negotiate cabotage is Australia. It already allows foreign airlines to operate domestic air carriers, and the step to cabotage would be a small one. As well, Australian carrier Qantas (25% owned by British Airways) is one of the **one**world air carriers that have now been denied price competitive access to beyond-the-gateway markets in Canada. It might be persuaded by other **one**world air carriers to operate Canadian feeder services to the benefit of other **one**world carriers.

---

[47] And vice versa for Canadian carriers.

[48] Presentation by Secretary Slater at the Transportation Millennium conference, Toronto, 12 June 2000.

[49] Ansett Australia is 100% owned by Air New Zealand. Unlike most other countries, Australian allows unlimited foreign ownership and control of domestic airlines.

4.5.3 International Carriers

Having examined domestic carrier offsets to AC's service reductions, the discussion now turns to the state of competition at the level of transborder and international carriers.

AC and its Star Alliance partners now dominate some international markets.

AC and its Star Alliance partners now dominate international markets between Canada and Germany, Scandinavia, Brazil, Mexico and New Zealand. Between Canada and the U.S., Air Canada is the largest carrier, with almost one half of the total market. Furthermore, AC has an alliance with United, the largest U.S. air carrier, and with number three carrier Delta. A merger between United and U.S. Airways would further consolidate the transborder market, leaving only American, Northwest, Alaska and niche carriers to provide competition.

At least one competitive offset has emerged: Qantas is currently flying direct to Vancouver from Australia in response to the loss of code sharing privileges with Canadian.

British Airways and Air France have filed formal complaints with the Competition Bureau regarding alleged anti-competitive practices by AC, which are denying them access to the Canadian market, especially beyond-the-gateway. For a description of their complaints, see **Appendix E**. However, at least one competitive offset is already taking place. Qantas, which lost its code share access to Canada when its long standing agreement with CAI was terminated by the latter, has decided to launch daily service to Canada with its own aircraft.[50] Whether this is a permanent service or one to take advantage of short-term opportunities due to the Sydney Olympics remains to be seen.

At present, overseas and transborder fares to gateway cities such as Vancouver are believed to be competitive due to competition provided to the gateways by **one**world and other carriers. However, service beyond-the-gateway to the interior of B.C. may no longer competitive for carriers outside AC's alliances and partnerships due to this change of airfare "pro-rates" in favour of Air Canada.

4.6 Conclusion

In spite of the presence of other carriers, the Canadian market is, and will be, dominated by the AC family in terms of fleet and capacity for the next several years. Competitive offsets from charter carriers and WestJet, while of great importance and benefit, will not be sufficient to eliminate Air Canada's dominance.

[50] It will operate three times weekly to Toronto and four times weekly to Vancouver.

Furthermore, competition from airlines outside of Canada may be insufficient for interior B.C. destinations due to limited cost competitive access to beyond-the-gateway markets, and due to Air Canada's strategic alliances dominating many key international markets.

Air Canada's strategic alliances which affect international and transborder travellers are the Star Alliance and Delta Air Lines. Between the members of these three networks, AC effectively dominates the following major tourism markets:

The Canadian market is, and will be, dominated by the AC family in terms of fleet and capacity for the next several years

- Germany, Scandinavia, Brazil, Mexico, and New Zealand.[51]
- AC and its alliance partners United, Delta (and potentially U.S. Airways) have a large share of the U.S. transborder market, although its share might not be considered large enough to be considered dominant.

One option to improve competition would be to grant cabotage rights to U.S. or other foreign air carriers. U.S. carriers would likely be interested in modified sixth freedom (over-the-hub) cabotage. While not as direct as non-stop services, the additional availability of seats on domestic trips may bring average fares down in some markets.

[51] Air Canada has significant competition from charter carriers in the southbound tourism market, but with Star Alliance partner, Mexicana, may dominate the inbound Mexican tourism market to Canada.

5.0 Assessment

5.1 Introduction

Chapters 3 and 4 provided information on the current and future effects of airline industry restructuring on frequency, capacity and competition in airline markets. This chapter takes those observations and assesses the impacts on the tourism industry in British Columbia. First, a summary of the key effects in airline markets is presented.

5.2 Effects of Restructuring on Air Service Convenience, Fares and Competition in B.C.

Industry restructuring has some beneficial impacts:

- **Improved gateway access to U.S. and overseas markets.** The strategy being pursued by AC is one that will likely see more convenient access to Canada's major gateways for U.S. and overseas travellers. AC is adding both frequency and destinations to its U.S. and overseas networks from most gateways. The Vancouver gateway, vital to development of B.C. tourism is benefiting, although not to the same degree as the eastern gateways of Toronto and Montreal.

  The Vancouver gateway, vital to development of B.C. tourism, is benefiting.

  Based on a previous study, Vancouver has seen a 5% increase in AC's transborder flights and a 3% increase in capacity when comparing August 2000 to August 1999.[52] (Toronto increases are 21% and 13%, while Montreal's are 38% and 4%.) For overseas flights, August 2000 over August 1999, Vancouver is experiencing an 8% growth in flights and a 9% growth in capacity. (Toronto: 16% and 5%, Montreal: 9% and 26%.)[53]

  New destinations added to Vancouver include Washington D.C., and direct AC service to Denver (United also provides service in the market). Vancouver is also expected to add AC service to Shanghai in 2000 (Air China already provides service in the market), and possibly to Mexico City in 2001 (JAL already provides service in the market.)

- **New code sharing opportunities.** AC has entered into a major code share agreement with Delta Airlines, the third largest U.S. carrier, taking effect in the Winter 2000 schedule. This complements its agreement with United (the largest U.S. carrier) and increases AC's U.S. network. Of significant importance to the Vancouver gateway is potential new service by either AC or Delta to Atlanta, a major gap in the Vancouver airport route network. With the proposed merger of U.S. Airways into United, another

[52] The annual analysis that appears in Appendix H indicated some decline in the transborder sector over the full year 2000. This is due in part to the reduction of U.S. capacity in the early part of 2000. There will be a need for continued monitoring.

[53] *The Impact Of Airline Industry Restructuring In Canada Upon Tourism In The Provinces And Territories.* June 2000.

major code share agreement is possible. Code sharing increases market access by exposing a broader market to B.C. tourism opportunities via same carrier flights.

- **Some domestic capacity has been added back.** In response to consumer and community pressures, some domestic capacity has been added back by Air Canada in its fine tuning of the April 2000 schedule changes.

There are also some negative elements from restructuring:

- **Loss of code sharing access for a number of important foreign air carriers.** A major consequence of the merger is the loss of code sharing into beyond-the-Canadian-gateway markets for **one**world carriers American, British Airways, and Qantas, as well as for other important carriers such as Alaska and EVA. This reduces the number of sellers of B.C. tourism opportunities beyond-the-gateway.

- **Reduced capacity and connectivity between regional markets and the Vancouver gateway.** While the Vancouver gateway is better connected to the rest of the world, it is less connected to interior points in British Columbia. Overall, there has been a 19% reduction in frequency of service in intra B.C. markets from YVR, and an 8% decrease in capacity in August 2000 over August 1999. Fewer available connections are more than an inconvenience to visitors to the province, as seen in the next observation.

- **Higher average fares for non-gateway markets.** AC has undertaken to limit increases in airfares. However, it has a powerful tool in being able to reduce the number of seats available in the low fare categories. Such reductions would result in higher average fares in the non-gateway markets, such as communities inside British Columbia. The overall reduction in Air Canada seat capacity in B.C. is likely associated with a reduction in seats available at the lowest airfares. Tourism is price sensitive so the burden of reduced seats falls most heavily on this sector. Data is not available to precisely state what is happening to seat capacity at various fare levels.

- **Loss of code sharing and attractive interline connection fares for important foreign carriers.** Carriers such as British Airways, Japan Airlines, Cathay Pacific, Air France, etc., have seen the cost of Canada domestic feed traffic increase substantially for beyond-the gateway domestic markets, and as a consequence will be less inclined to actively promote these destinations.

- **WestJet may be unlikely to provide offsetting/competitive interline connections.** WJ is following a typical low cost strategy, an important element of which is *not* providing seamless interline services. While WJ does sell seats to a few charter and foreign carriers, these are not code shared, do not appear in computer reservation systems under the codes of the charter and foreign carriers, and there is no interline baggage transfer. Thus, WJ may be unlikely to provide offsetting access to foreign carriers.

- **Charter carriers and WJ are only able to provide a modest offset to reduced AC service.** WJ and the charter carriers presently only account for 24% of the nation's seat capacity offered for sale. While several have announced ambitious route and fleet

expansion plans, strong growth on a small base can provide only a modest offset to reductions by AC. Currently announced fleet expansions by WJ and Skyservice/RootsAir, CanJet and Canada 3000 increases the charter/WJ fleet only from 75 to 138 aircraft, compared with the AC family's 2005 fleet of 462 aircraft.

5.3 Implications for B.C. Tourism

5.3.1 Introduction

Tourism B.C. defines the term "tourism" as travel involving a distance greater than 80 kilometres and/or overnight, for one of the following purposes: visiting friends and relatives (VFR), leisure activities, or business purposes. This section examines the implications of industry restructuring for these individual segments of the B.C. Tourism Industry.

5.3.2 VFR

The visiting friends and relatives tourism market is generally very sensitive to prices. Reductions in the number of seats at the lowest airfares will be met by switching mode to auto, and bus, and reduced travel. [54] The effects will differ by origin (domestic versus international) and by region (Vancouver gateway versus B.C. beyond-the-gateway).

28% of Non-Resident Overnight Visitors

Source: B.C. Visitors Survey 1995

For international VFR travel to the Vancouver gateway, AC is likely to remain competitive, and no net negative impacts are likely to take place. This state is likely to persevere for some time.

- For domestic VFR travel to the Vancouver gateway there are offsetting impacts. There will likely be a net reduction in AC seats at the lowest discounts, discouraging travel. On the other hand, AC is adding destinations such as Halifax and adding capacity on direct services beyond Toronto to Ottawa and Montreal, increasing convenience and connectivity. As well, the Vancouver gateway is the most likely to benefit from offsetting service by the charter carriers and WestJet.

- For beyond the gateway markets, the news is not good. Significant reductions in flight and seat capacity will seriously reduce access to the lowest fares this segment of the market seeks. These communities are much less likely to benefit from offsetting service from charter carriers and WJ. The one factor which could offset this outcome would be a financially successful CRAL, which would provide a competitive network choice for many B.C. communities.

[54] Rail service in B.C. is limited.

5.3.3 Leisure

56% of Non-Resident Overnight Visitors

Source: B.C. Visitors Survey 1995

Leisure visitors to British Columbia include those participating in outdoor activities, general sightseeing, sporting and cultural events, shopping and personal matters. The province's established leisure markets are the following:

- **Domestic.** Travellers from Alberta make up 77% of regional tourism revenue and travellers from Ontario make up 73% of long haul domestic revenue.[55]

- **Transborder.** Visitors from Washington generate 78% of the regional visitation and revenue. The remaining U.S. regional market is comprised of travellers from Oregon, Idaho, Montana and Alaska. California has the greatest share of the long-haul U.S. market contributing 40% of its tourism revenue in B.C.

- **International.** The international market consists of the Asia-Pacific market and Europe. Of the Asia-Pacific market, Japan was forecast to contribute the most to B.C. visitor volume and revenue, 38% and 34% respectively. Australia and New Zealand are second and Taiwan is third largest source of revenue from the Asia-Pacific in B.C. From Europe, the highest proportions of visitors are from the UK, contributing 38% of visitors and 41% of revenue. Germany is second with 20% of visitors and 24% of revenue. Other European tourists originate from the Netherlands, France and Italy. Mexico is a considered a growth area of the international market with significant potential.

As a group, leisure travellers are considered to be sensitive to price and convenience, but somewhat less price sensitive than VFR and less service sensitive than business travellers.

5.3.4 Conference/Business meeting

16% of Non-Resident Overnight Visitors

Source: B.C. Visitors Survey 1995

Business travellers are generally much less sensitive to prices but are very sensitive to convenience. Anticipated effects of airline industry restructuring include:

- The Vancouver gateway will have increased connectivity to U.S., overseas and domestic markets. Expanded code sharing with Delta and potentially with U.S. Airways will also enhance the visibility of Vancouver. Offsetting this will be reduced access to the lowest airfares for domestic spokes of the Vancouver route network, but on average the impact may be positive.

[55] These percentages are based on the 1999 projections published in Tourism British Columbia Business Plan Highlights 1999/2000.

- For beyond the Vancouver gateway markets, effects are mixed, but likely negative overall. On the positive side, Kelowna and Victoria have benefited from seasonal non-stop service to Toronto, improving their access. As well, there may be some additional code share visibility via Delta. On the negative side, these communities are experiencing reduced connectivity to the Vancouver gateway. As well, there has been a loss of code sharing exposure with a number of important foreign carriers. This includes Alaska Airlines, which feeds West Coast U.S. traffic to Canadian communities, British Airways which brings European visitors and others.

There will be negative impacts for beyond-the-gateway markets.

As such, business that is conducted in Vancouver will be positively affected by the outcomes of airline restructuring in British Columbia whereas meetings that take place in other parts of the province will impose more hardship on the traveller.

Similar effects can be expected on conference travel. The principal conference centres in British Columbia are in Victoria, Whistler, Penticton and Vancouver. Conferences in Penticton will likely suffer the most as Victoria and Whistler can alternatively be reached by ferry and/or car.

Gateway vs. beyond-the-gateway. Again, impacts will vary between the Vancouver gateway and other B.C. markets. The gateway will enjoy greater connectivity and competition in international markets. By and large, industry restructuring may be good for Vancouver tourism growth in the U.S. and overseas markets. Vancouver will benefit as well from competitive air service.

In contrast, beyond-the-gateway markets will be negatively impacted by all three observed effects of restructuring: reduced capacity; lower service convenience; and, reduced access to the lowest airfares. Some offsetting benefit will be experienced at Victoria and Kelowna to the extent that they can retain seasonal non-stop service to Toronto.

Some offsetting service by independent carriers, especially WJ, could be achieved at some of B.C.'s smaller communities. WJ, however, will be focussing much of its limited fleet additions in the next two years to eastern markets and to the major western triangle (Vancouver/Abbotsford-Calgary-Edmonton), where the service reductions by AC are creating a major opportunity. Plans to launch limited edition service to some smaller B.C. communities have been put on hold pending fleet availability. It is not until 2003 and beyond that WJ will begin taking delivery of significant numbers of new aircraft.

Charter carriers will be focused on the major opportunities in the larger markets.

Similarly, the charter carriers, including start up RootsAir, will be focused on the major opportunities in the larger markets.

5.4 What is the Competitive Position of B.C.?

The impacts of industry restructuring are not uniform across Canada. As already described, the Toronto and Montreal gateways have enjoyed much larger increases in access and capacity than has Vancouver. On the other hand, the Calgary gateway has fared worse than Vancouver. Toronto has had a positive change in terms of access domestic market access beyond-the-gateway. This is due both to a very small negative AC adjustment to domestic capacity at Toronto than at other airports, and because it has enjoyed much higher growth from the independent carriers. Montreal has also fared better than Vancouver in this regard.

On balance, tourism to Vancouver will benefit from medium term improvements in access to the U.S. market, and from continuing competition from overseas and U.S. air carriers. Ultimately, beyond-the-gateway markets will be negatively impacted, short term and medium term.

5.5 Effects on Airports

Reduction in landing fee revenues will financially weaken some airports.

It is also worth noting that industry restructuring will have indirect effects. Many of B.C.'s regional airports are experiencing significant drops in landing fee revenues.[56] This will financially weaken some airports. Lost revenues will need to be made up. Given the limited ability of these airports to increase revenues from land development or retail/food/beverage, they will have to turn to the carriers for increased fees and charges, or directly to travellers via increased airport improvement fees. Such fee increases indirectly raise the cost of tourism. As well, airports are under pressure from independent carriers to offer fee reductions in order to attract new service. WJ in particular has won significant fee concessions from a number of airports.

There are some analysts who are of the opinion that a few community airports will not be able to survive the financial challenges they face.

[56] Airport landing fees are generally based on the maximum take-off weight of the aircraft and the sector origin point (e.g. domestic vs. international). Landing fees do not vary in relation to the number of passengers onboard a flight.

6.0 Policy and Action Options

6.1 Introduction

The previous chapters described the initial impacts of airline industry restructuring on capacity and fares in B.C. markets, commented on potential future changes in the industry, and indicated the impacts on the tourism industry. This chapter indicates some of the initiatives and actions which government and industry might consider to ensure that industry restructuring has the most beneficial (or least negative) impacts on B.C. tourism.

Bill C-26 makes clear that preventing the merger of AC and CAI is not an option. The Bill cut off all avenues to prevent or undo it. The analysis of fleet plans (Chapter 2) shows that even with the current ambitious announcements of fleet additions by WestJet, CanJet and the charter carriers, the new AC is likely to continue to dominate the Canadian air transport industry for some time. While a much larger Air Canada creates potential opportunities for international air service, it also has potential to have negative impacts on domestic markets, especially beyond-the-gateways.

This section examines actions by government and the tourism industry that create the best opportunities to enhance air capacity and mitigates the negative impacts of restructuring so as to maintain and support the tourism industry. These initiatives might include strategies to:

- Monitor industry developments so negative impacts can be pinpointed in a timely manner.
- Encourage AC to maintain or expand service, especially in beyond-the-gateway markets.
- Ensure that government agencies have powers which can prevent dominant air carrier abuses in a timely manner.
- Create the best conditions for continued expansion of airlines that provide competing services in domestic markets.
- Create an airline network alternative that will provide a competitive choice for tourists and for air carriers (Canadian and foreign) desiring access to beyond-the-gateway markets.
- Increase foreign carrier access to beyond-the-gateway markets at competitive prices.

Below, some details on potential initiatives are provided.

6.2 Monitor industry developments

The availability of data on the performance of the Canadian airline industry is limited, and what is available is produced with significant lags and published at an aggregate level. This

is in marked contrast to the U.S., where extensive databases are available covering origin-destination traffic flows, airfares and yields, carrier load factors, etc. Other nations (e.g., Australia) also have significant publicly available data that allow consumers and the tourism industry to monitor airline impacts and developments. This is especially important, as the federal government has adopted a wait and see attitude toward further measures which could improve the conditions for competition in the domestic industry. As well, issues involving international services are being postponed for later consideration. The following actions could be considered:

1. Data on key measures of airline industry performance should be collected and reported on a timely basis. This should include information on average fares in major market segments (intra-province, domestic transcontinental service, gateway to regional community services, transborder services, overseas services by national market); capacity and frequency in individual markets; market shares of individual carriers (measured in revenues, capacity offered, passengers carried); and load factors.

2. The tourism industry should be provided with regular reports on developments in the airline industry.

6.3 Encourage AC Maintenance or Expansion of Service

Because of Air Canada's current and future dominance of the Canadian aviation marketplace, B.C. tourism will depend on this carrier for the majority of inbound air tourism. Accordingly, AC should be supported in its efforts to expand air services to B.C. This leads to the following initiatives that could be considered:

3. AC's efforts to seek additional open skies agreements should be supported by the industry and enabled by government.

4. The B.C. tourism industry should meet regularly with AC staff to exchange marketing concepts and develop methods to support each other's marketing and sales efforts.

5. AC should be encouraged to maintain a senior executive in B.C. Currently AC has no Vice President level manager located in B.C.

AC is cultivating Toronto as a mega-hub, and, with its corporate headquarters in Montreal, has a strong eastern focus in general. As well, much of the senior staff of Canadian Airlines, which had developed a deep understanding of the B.C. market potential, have left the air carrier. Although there are indications that Air Canada may establish the headquarters of its proposed discount carrier in Vancouver, it is important that the mainline carrier has senior representation in B.C. and an internal voice for the opportunity of the Vancouver gateway and the B.C. market opportunity.

6.4 Prevent Abuse by Dominant Carrier

Even with passage of Bill C-26, some believe that the Canadian Transportation Agency will have only weak regulatory oversight powers. A specific concern is its inability to regulate average prices. As well, after a two year initial period, the agency will only be able to

investigate prices upon complaint, and the new ombudsperson-commissioner of the Canadian Transportation Agency will have no enforcement powers. Some specific actions, which might be considered, are:

6. Make competitively priced beyond-the-gateway seats on regional AC family flights available to foreign air carriers.

7. Provide the CTA ombudsperson with real powers.

8. Increase the powers of the CTA to monitor and limit increases in average fares.

The Minister of Transport has commenced the required four year review of the Canada Transportation Act. The panel has a reporting date of 1 July 2001. This review process will be an excellent opportunity to put forth revisions to the CTA which will mitigate any negative impacts of airline industry consolidation. As well, there may be opportunity for (or opportunity should be created by) the tourism industry to put forth its views to the Parliamentary Standing Committees on transport. Of special importance is the need to ensure that in the future the interests of the tourism industry are explicitly taken into consideration by the Government and its Agencies when dealing with airline industry issues. Australia, for example, explicitly considers tourism interests in its regulatory proceedings.

6.5 Best Conditions for Continued Expansion of Air Canada and Independent Carriers

In the long term, B.C. tourism growth will depend on the success of all of Canada's air carriers (AC and independent carriers) in providing competitive access to B.C. communities. This leads to actions that focus, in part, on lowering the costs for these carriers and potentially lower prices for inbound tourists.

9. Reduce or eliminate fuel taxes (provincial and federal domestic) on air carriers.

10. Revise the Federal airports policy to limit present and future ground rent payments by airports to the Federal Government.

11. Expand the Federal Airport Capital Assistance Program to increase support for the capital programs at regional airports.[57]

6.6 Network airline alternative

Critical to U.S. and overseas carrier servicing of tourism markets beyond-the-Vancouver-gateway is the operation of a second domestic network airline. Air Canada can be expected to prefer to reserve access to its beyond-the-gateway feeder services for Star Alliance carriers and other partners of its own choosing. Creating conditions which give the best opportunity for the emergence of such services would be beneficial to the development of tourism markets. This leads to a second set of actions that could enhance impacts on the B.C. tourism industry.

[57] On 10 July 2000, Transport Canada nominally increased the annual ACAP funding from $35 million to $38 million.

12. An independent CRAL could provide important competitive access to beyond-the-gateway tourism markets.

    If Canadian Regional Airlines (CRAL) is successfully sold, then many Canadian communities would have competitive service from an independent network carrier. It would not replicate the extent or frequency of the Air Canada network, and there would be challenges faced by an independent CRAL. If successful, it would be likely to form code sharing alliances with important U.S. and foreign airlines, creating conditions for competitive price access to a number of B.C. tourism destinations.

13. Cabotage access for U.S. and/or other foreign carriers would grant U.S. carriers the privilege of marketing purely domestic air services in Canada.

    Cabotage is considered by some to be a controversial policy action to take. In part, this is because the stereotypical view is that there could be implications for transferring some Canadian jobs to locations in the U.S. However, there are several forms that cabotage could take, and some would generate new jobs in Canada.

    Modified sixth freedom cabotage. The Competition Bureau recommended to the Standing Committee that Canada allow what it termed "modified sixth freedom services." This would allow US carriers to serve domestic Canadian markets via their U.S. hubs. For example, a US carrier might sell Regina –Minneapolis-Montreal tickets, something which is illegal today. This type of service would likely be of greatest value to price sensitive tourism markets, as each direction would require two Customs clearance processes, something which a time sensitive traveller would find unappealing.[58]

    Right of Establishment Cabotage. Another type of cabotage would require foreign carriers wishing to serve Canadian domestic markets to establish Canadian domiciled carriers. This is the approach used in Australia, where U.K. owned Virgin Airlines has established an Australian based carrier, Virgin Blue, which will soon be operating purely domestic Australian services. This "right of establishment" cabotage requires that domestic services in Australia are operated by Australian based and maintained aircraft with Australian crews and Australian support. Thus, this form of cabotage is job creating.

    Domestic Code Share Cabotage. This would allow a U.S. (or U.K. or other foreign) carrier to sell tickets for domestic service but such service must be provided by a Canadian owned carrier. The primary advantage of this approach is that it would allow one or more of the powerful U.S. airline brand names to be used to market services in Canada which would be provided by otherwise weak Canadian brands. A hypothetical example would be marketing services under American Airlines' brand which would be a collection of services by various small regional and charter carriers.

[58] Note that automated customs clearance processes, such as CanPass and INSPass, both of which are available at the Vancouver International Airport, expedite such processes.

Pure Cabotage. This would be the most extreme form, where U.S. (or U.K. or other foreign) carriers would operate flights within Canada with their own foreign aircraft and crews.

Air Canada itself has indicated it would support cabotage rights provided that privileges are reciprocal. Until recently, reciprocal cabotage rights with the U.S. seemed a remote possibility due in part to the way in which the cabotage prohibition is enshrined in U.S. legislation. The recent proposal to merge United and US Airways, however, could prompt the U.S. Congress to authorise cabotage rights for non-U.S. carriers, something which already has found some support within Congress. As well, U.K. carriers, such as Virgin, could be interested in establishing Canadian domestic operations, providing an alternative avenue for reciprocal cabotage rights. Virgin is launching domestic service in Australia this summer with the brand name of Virgin Blue. Australia has a significantly smaller domestic market than Canada, and is already served by two financially healthy domestic carriers.[59]

6.7 Foreign carrier access

The Vancouver International Airport Authority recently held Air Access Forum 2000. One of the major observations made by air carriers (foreign and domestic) during the forum was that the cornerstone of air service development is regulatory access to the Vancouver market.

Foreign carriers can serve B.C. markets only if they are authorised to do so by a bilateral air services agreement between Canada and the foreign government. Canada's bilateral agreements are generally restrictive in terms of how many Canadian cities may be served by a foreign carrier, which cities can be served, and how often services may be operated. For example, the Vancouver International Airport Authority has determined that two-thirds of Canada's air services agreements provide no foreign carrier access to Vancouver. Our bilateral agreement with Taiwan restricts EVA Airlines to only 3 flights per week in spite of a desire to fly at least daily. In contrast, the U.S. has signed liberal open skies agreements with a large number of nations, which have removed almost all restrictions.

The Federal Minister of Transport has stated that he does not intend to make any significant changes to Canada's international airline policy for at least two years. There are a number of air carriers who have expressed interest in serving or increasing service to Vancouver, but are unable to do so with current air services agreements.[60] The Minister has indicated that he will start a review of international air policy in 2001, as input to his decision as to whether international airline policy would be revised in 2002. His process is somewhat puzzling, as Air Canada itself has been calling for more open skies agreements.

---

[59] Ansett Australia is 100% owned by Air New Zealand. Unlike most other countries, Australia allows unlimited foreign ownership and control of domestic airlines.

[60] E.g., EVA Airlines would like to increase its service from Taipei, and Lan Chile expressed interest in serving Vancouver if Canada and Chile were to have a liberal air services agreement. Lan Chile is currently authorised service in Canada only to Montreal.

Some actions that could support increasing access for foreign carriers to the Vancouver gateway and beyond-the-gateway markets in B.C. might include:

14. There should be an immediate start of a federal international air policy review, rather than a delay of the review to 2001, and an acceleration of implementing changes in this policy from 2002 to 2001.
15. Ensure that the needs of the B.C. tourism industry for increased access for air carriers (Canadian and foreign) to B.C. are made known in that policy review.
16. Obtain open skies regimes with as many countries as possible.
17. Support an early move away from the cumbersome, expensive and time consuming bilateral air services agreement negotiating process. This would be replaced with multilateral agreements. A significant medium term opportunity is to expand the coverage of the GATS agreement to include air traffic rights.
18. Complete the Canada-U.S. open skies agreement to include 5th freedom rights.[61]

[61] The latter initiative requires some comment. The 1995 Canada-U.S. open skies agreement gives U.S. carriers the right to fly to/from Canada, but not beyond Canada. 5th freedom rights, the ability of U.S. carriers to fly beyond Canada to overseas destinations, could result in new services by U.S. carriers, or increased service by overseas carriers due to increased gateway traffic to their flights via third-country-code-sharing by U.S. carriers. Just as importantly, AC could benefit from 5th freedom rights. If it exercised these rights and flew from Canada to a U.S. and then beyond, new overseas destinations (perhaps in Latin America or deeper into Asia) could be connected to Vancouver.

Appendix A:
Historical Development of the Airline Industry

Appendix A: Historical Development of the Airline Industry in Canada

Prior to airline deregulation, Canada's airline industry consisted of:

- two trunk carriers (Air Canada and CP Air – the latter being one-third the size of AC),
- five regional carriers (PWA, Transair, Nordair, Quebecair and EPA),
- a major charter carrier (Wardair), and
- a large number of local carriers.

The transition to deregulation began in 1984 under Minister of Transport Lloyd Axworthy, and the process was completed in 1987 with passage of the National Transportation Act. By 1989, CP Air and all the regionals had amalgamated into Canadian Airlines International (CAI), although at the cost of a heavy debt structure, and with a provincial constraint (Alberta) that prevented any individual or group from owning more than 10% of its shares, thus entrenching management. Air Canada was privatised in two stages with a favourable debt structure, although with similar (federal) constraints on ownership.

In 1991 and again in 1994, CAI faced severe financial pressures. This resulted in a major investment (25% of voting shares and 35% of total equity) in CAI by American Airlines, and by its employees (25%) in exchange for wage rollbacks. In 1996, WestJet (WJ) entered CAI's stronghold in the West (the Calgary-Edmonton-Vancouver triangle). Just prior to the WJ service, Air Canada launched its Rapidair service in the western triangle, resulting in additional frequency and seat capacity. Rapidair had been successfully used for years in the Eastern triangle (Montreal-Toronto-Ottawa). This three way competitive environment in the West resulted in a great deal of extra capacity, an erosion of Canadian's profits, and is one of the reasons why Calgary has been so adversely affected by industry restructuring.

As 1999 began, CAI's management concluded that it would be unable to survive without a major financial injection and began searching for an investor. American Airlines and other foreigners were ineligible to make an investment due to Federal limits on foreign ownership. (The Canadian Transportation Act confines foreign investors to a non-controlling interest in no more than 25% of the equity of a Canadian air carrier.) Merger discussions were held with AC, but these were not successful. Onex Corp. then made a bid for the shares of both CAI and AC, a move which was facilitated when the Federal Minister of Transport (MoT) exercised Section 47 of the Canada Transport Act (CTA) allowing air carriers to enter into discussions without fear of prosecution for violating the Competition Act. Ultimately a bidding war took place, with Onex leaving the field and AC being successful in a counter bid for Canadian. Onex had abandoned its bid following a Quebec court ruling stating that the Onex offer to purchase AC was illegal under the provisions of the *Air Canada Public Participation Act*.[62] Following Onex's withdrawal, Air Canada made a formal offer to

[62] This states that no one shareholder can own more than 10 percent of AC voting shares.

purchase CAI. The transaction was approved on December 21, 1999, when the Competition Bureau indicated that it would not contest the merger, subject to the imposition of several conditions. These conditions are intended to preserve competition. As well, the Minister of Transport had previously announced conditions on the merger dealing with public interest issues.

Appendix B:
The New AC Family

Appendix B: The New AC Family

Table B-1: The Air Canada Family After the Merger[63]

Air Alliance	Aviation Quebec Labrador
Air Alma	Calm Air
Air Canada	Canadian Airlines
Air Georgian	Canadian Regional
Air Nova	Central Mountain Air
Air Ontario	Northwest Territorial
Air St. Pierre	Ontario Regional
AirBC	Regionair
Alberta City Link	

[63] In addition, Labrador Airways leases an 18 seat Beech 1900 to Air Nova which carries the Air Canada code.

Appendix C:
AC Competitors

Appendix C: AC Competitors

1. WestJet.

WestJet began operations in 1996 as a discount airline modelled after Southwest Airlines in the U.S. Like Southwest, WestJet quickly became profitable by offering point to point (non-hub) service, but within Western Canada. The firm went public in July 1999. Taking advantage of the opportunities brought about by the AC/CAI merger, WestJet changed its focus and announced expansion plans into Eastern Canada, increasing to 15 the number of Canadian destinations served by the carrier.

WestJet is growing at a tremendous rate. In May 2000, it experienced a 72% traffic increase over the year before, with traffic rising to 116.5 million revenue passenger miles. However, even with this rapid growth, WestJet remains a small niche player in the domestic market when compared to Air Canada's 1.1 billion revenue passenger miles in April 2000.[64] Nevertheless, when WestJet began flying between Hamilton and Moncton, it evoked a competitive response from AC. WestJet experienced first hand Air Canada's market power in the form of AC's increased capacity and reduced fares.

2. Charter Carriers.

Canadian charter carriers include Canada 3000, Air Transat, Royal, and Skyservice. These carriers provide both charter and scheduled services in domestic transcontinental and international markets. Canada 3000 and Royal have increased their scheduled services for the summer 2000.

- **Canada 3000** has expanded its domestic scheduled service and expects to carry over 1 million passengers this year. This compares with approximately 750,000 in 1999. The carrier currently serves 12 Canadian cities, 16 American cities, and 66 international destinations. Domestic operations represent less than one-third of Canada 3000's total market.

- **Air Transat** has the largest fleet among the Canadian charter carriers, with 23 aircraft. It serves 10 Canadian cities and 35 international destinations, and in 1999, carried approximately 2.5 million passengers.

- **Royal Aviation** operates as Royal Airlines and is the third largest charter airline in Canada. In October 1999, it began offering scheduled domestic service to 6 Canadian cities and currently serves the 8 major Canadian gateways. These 8 gateways are Vancouver, Toronto, Montreal, Ottawa, Winnipeg, Calgary, Edmonton, and Halifax. Royal's charter services focus on Europe as it serves 11 European destinations. Both

[64] It is interesting to observe that it required Southwest Airlines over 15 years to reach a fleet size of 100 737 aircraft. This is in spite of it operating in the largest domestic airline market in the world.

Royal and Canada 3000 will be expanding their summer schedule to serve more Canadian points on a seasonal basis.

- **Skyservice** is a carrier that provides charter services to Sunquest, a major Canadian tour company linked to Carnival. Skyservice is also the major owner of the new carrier, RootsAir.

It is important to note that charter carriers distribute their products through their own tour companies and/or other independent tour operatcrs in Canada and abroad. This is different than regular scheduled carriers who sell through their own reservation agents and travel agents. Canada 3000 and Air Transat each operate their own tour companies, Canada 3000 Holidays and Air Transat Holidays. In addition, both carriers are suppliers to other major independent tour operators in Canada. For example, Canada 3000 is a supplier to Conquest Vacations and World of Vacations. Air Transat provides air services for Signature Vacations, a significant operator in Canada, as well as other tour wholesalers. Royal Airlines is also major supplier to Signature Vacations, plus Conquests Vacations and others tour companies.

3. New Entrants.

CanJet and **RootsAir** are two potential new entrants to the Canadian charter market. CanJet intends to offer low cost, unrestricted airfares to Central and Eastern Canada. As such, it may compete with WestJet in some markets, although it would like WestJet to completely exit the eastern markets. Operation is likely to begin in Fall 2000 with two 120-seat 737 aircraft, with four additional jets are to be added by late 2000. CanJet will not be a factor in B.C. tourism.

- **RootsAir** will be a full-service airline targeting the business traveller. Its business plan calls for service to the 8 Canadian gateways in November 2000. The airline, which is developing a business plan similar to Wardair's late foray into scheduled services, will provide domestic and some transborder business class service at competitive prices. RootsAir claims it has signed letters of intent to provide interline service with several international carriers.

Appendix D:
Airline Alliances

Appendix D: Airline Alliances

1. Types of Alliances

In order to increase access to markets, airlines have developed marketing alliances among themselves. The basic concept is to increase the number of markets for which a carrier can offer service to its customers but utilising the flights of another carrier. These alliances vary in nature. Some types include:

- *Single operator alliances.* E.g., Canadian Airlines flies from Nagoya, Japan to Vancouver. Until recently, Japan Airlines was able to sell tickets on this flight under its own airline code.
- *Shared frequency alliances.* E.g., until recently, Air Canada and EVA each flew three times per week between Taipei and Vancouver, with each selling seats on the other's flights.
- *Meeting point alliances.* E.g., until recently Canadian Airlines flew from Vancouver to Honolulu and Qantas flew from Honolulu to Sydney. Each sold seats on the other's flights, allowing each to offer daily through services.
- *Alternate city alliances.* E.g., until recently Canadian Airlines flew from Calgary to the U.K. while British Airways flew from Vancouver to the U.K. Each put its code on the other's flights.
- *Cross code sharing alliances.* E.g., Canadian and Cathay Pacific put their codes on each other's daily flights in the same markets.
- *Global alliances.* The above alliance types involve only two carriers. The recent global alliances attempt to achieve dramatic increases in market penetration by linking the services of many carriers together.[65]

2. Global Alliances

Over 55% of the world's air passenger traffic is carried by global alliance members. In 1999, the **one**world alliance was the largest global alliance with 21% of the world share of revenues and almost 19% of the world share in passengers carried. **Table D-1** outlines the major global alliances currently in place.

---

[65] In practice, the global alliances generally involve a series of bilateral alliances between the carrier partners. This may be required, for example, due to regulatory constraints. Thai International Airways and Air Canada were members of the Star Alliance, but AC lacked regulatory authorisation to serve Thailand, and thus no code sharing alliance existed between these two carriers. The two carriers could undertake some other joint marketing efforts, such as participating in each other's frequent flyer programs, sharing business class lounge facilities, etc.

Prior to June 1, 2000, CAI was a member of the **one**world alliance. With the departure of CAI from **one**world, the Star Alliance has the dominant position in Canada. **one**world carriers continue to have a presence in Canada, but as described earlier, its ability to access beyond the gateway markets has been seriously reduced by loss of competitive add on fares. Access concerns are present not only for alliance carriers but also for independent carriers which previously had access to beyond-the-gateway fares. Alaska Airlines is an especially important carrier for B.C. in this regard.

Table D-1: Major Global Airline Alliances

	oneworld		Wings	SKYTEAM	Qualiflyer
Current	▪ American ▪ British Airways ▪ Cathay Pacific ▪ Finnair ▪ Iberia ▪ QANTAS ▪ Aer Lingus ▪ Lan Chile	▪ Air Canada ▪ Canadian ▪ United ▪ Lufthansa ▪ Thai International ▪ Varig ▪ SAS ▪ Air New Zealand ▪ Ansett Australia ▪ All Nippon Airways ▪ Austrian Airlines ▪ Lauda Air ▪ Singapore Airlines ▪ Tyrolean Airways ▪ British Midland ▪ Mexicana	▪ KLM ▪ Northwest ▪ Continental ▪ Alitalia (may be departing)	▪ Delta ▪ Air France ▪ Aeromexico ▪ Korean	▪ Swissair ▪ Sabena ▪ THY Turkish ▪ TAP Air ▪ AOM ▪ Lauda Air ▪ Cross Air ▪ Air Europe

3. Foreign carriers

Table D-2 shows the various foreign air carriers that serve the eight Canadian gateway airports. Some of the listed services are charter and/or seasonal. The list does not include foreign carriers that serve a Canadian gateway through a code-share agreement, nor does it include U.S. carriers.

In terms of the impact on British Columbia, 3 of the 11 foreign carriers that serve Vancouver with their own aircraft are members of **one**world (British Airways, Cathay Pacific, and Qantas). The Qantas service (scheduled to start in July 2000) is a direct response to its loss of code share access to Vancouver on Canadian Airlines. Whether this service will be economically viable after the conclusion of the Sydney Olympics remains to be seen.

Some of the Vancouver carriers had worked in code sharing alliances with Canadian. These include Japan Airlines and Alaska Airlines. EVA had a code sharing alliance with Air Canada that was terminated. A new code sharing agreement between Air Canada and Singapore may be possible as the latter is now a member of the Star Alliance. Table **D-3** provides a list of the main alliances in which Canadian Airlines had participated.

Table D-2: Foreign Carriers Directly Serving Canadian Gateway Airports

Carrier	Vancouver	Calgary	Edmonton	Winnipeg	Toronto	Ottawa	Montreal	Halifax
Aeroflot Russian					◆			
Air China	◆							
Air France					◆		◆	
Air St. Pierre							◆	◆
Air Ukraine					◆			
Balair	◆	◆						
British Airways	◆				◆		◆	
BWIA International					◆			
Cathay Pacific	◆				◆			
Corsair							◆	
Cubana					◆		◆	
Czech Air					◆		◆	
El Al Israel					◆			
EVA Air	◆							
Guyana Airways					◆			
Icelandair								◆
Japan Airlines	◆							
KLM	◆				◆		◆	
Korean Air	◆				◆			
LACSA					◆			
LOT Polish Airlines			◆		◆			
LTU International					◆			
Lufthansa	◆	◆			◆			
Malev Hungarian					◆			
Martinair	◆	◆	◆					
Mexicana					◆		◆	
Olympic					◆		◆	
Pakistan International					◆			
Qantas	◆							
Royal Air Maroc							◆	
Sabena							◆	
SATA International					◆			
Singapore	◆							
Swissair							◆	
Tarom Romanian							◆	
Varig Brazil					◆			
Total	**12**	**3**	**2**	**0**	**22**	**0**	**13**	**2**

Note that Table D-2 includes only those carriers that operate their own aircraft into the above cities. Some of the listed services are charter and/or seasonal. Carriers that serve these cities through code share agreements with other airlines are not included, nor are U.S. carriers.

Table D-3: Major Airline Alliances in Which Canadian Airlines Participated in 1999

Carrier	Alliance
Air Pacific	Meeting point
Alaska/Horizon	CAI put its code on Alaska operated flights.
Alitalia	Seasonal single carrier operation
American	Alternate city, cross code sharing
British Airways	Alternate city, seasonal single carrier, cross code sharing
Cathay Pacific	Cross code sharing
Japan Airlines	Single operator, cross code sharing
Lan Chile	Meeting point
Qantas	Meeting point

The new start-up carrier, RootsAir, has indicated that they are pursuing several interline agreements and have signed a handful of letters of intent with foreign carriers. For example, Roots claims that **one**world has expressed interest in interline agreements with it. If successful, such agreements will allow the interlining carriers to provide seamless service on one ticket. Flight schedules may be co-ordinated and baggage would need only to be checked once. However, some critics question the viability of RootsAir citing high costs and an unfocused market plan.

4. New Alliances

AC has announced that it will be undertaking a new alliance agreement with Delta Airlines. Delta operates major hubs at Atlanta and Cincinnati, and secondary hubs at Dallas, Salt Lake City and Portland, the latter being its gateway to Asia. Many in the industry view Delta's hubs as complementary to those operated by United and Air Canada. For B.C., this alliance would likely result in improved access to Atlanta and possibly to Cincinnati. Atlanta would fill a major gap in the Vancouver gateway route map.

United has announced an intention to acquire US Airways. While approval of this merger is by no means assured, it would result in US Airways entering the Star Alliance. Air Canada could be expected to enter into a code share agreement with US Airways prior to actual merger. Its major hubs are in Pittsburgh and Philadelphia, two cities not currently linked to the Vancouver gateway.

Appendix E:
Current Regulatory and Court Actions

Appendix E: Current Regulatory and Court Actions

While Bill-26 was working its way through the parliamentary process, there were other actions underway.

1. WestJet Complaint

The Competition Bureau is currently reviewing a complaint by WestJet alleging that Air Canada has abused its dominant position and is engaging in predatory behaviour in the Hamilton/Toronto to Moncton market. WestJet alleges that following the merger, Air Canada began reducing capacity on the Toronto-Moncton route. This pattern was reversed shortly after WestJet began flying the Hamilton-Moncton route in April 2000. Not only did AC add capacity, it undercut WestJet's fares and removed low-fare restrictions, thus, making them available to late-booking customers.

2. Air France Complaint

Air France has filed a complaint with the Competition Bureau regarding Air Canada's new override commission program. Air France's concern is with the link between international sales targets and domestic override commissions. A new Air Canada override commission program, Horizon 2000, was introduced on 1 June 2000. It pays travel agents a commission over and above their standard rate if they reach certain international sales targets.[66] If a travel agent is eligible for the world sales override commission, it is also eligible for increased commissions on its domestic sales. Air France alleges that the linkage of a travel agent's domestic sales to the international trigger mechanism gives Air Canada very significant leverage which is anti-competitive.

3. British Airways' Complaint

British Airways (BA) has raised three issues at the Canadian Parliamentary and Senate Transportation Committee meetings. These include access to airport slots, leveraged travel agent commissions, and domestic interlining.

Concerning domestic interlining, BA has complained about the excessive fares it must pay Air Canada for domestic feed traffic to and from its flights from the U.K. to Canadian gateways. Previously, under the **one**world agreement with CAI, a revenue division formula was used to assess interline charges. The formula, straight-line rate proration, is based on the ratio of normal economy fares on the domestic and international sectors. It is applied world-wide as the means of dividing through fares from international to international flight connections.

---

[66] For instance, if a travel agent produces increased Air Canada world sales (excluding domestic sales), and if Air Canada's market share of that travel agent's sales increase, and provided that market share is relatively better than the peers in the region, the agent is eligible for an extra (override) commission payment. The amount of the override depends on the magnitude of difference between the travel agent and its peers.

Straight line proration is no longer available to BA given that CAI has left the **one**world alliance. Instead, Air Canada now requires payment of the full local economy fare for the connecting Canadian domestic sector. In some cases, BA alleges that it is paying even more than the full local domestic fare. It gives the example of an Ottawa-London return business class fare that cost BA $778 (2 x $389) when CAI carried the passengers from Ottawa to Toronto to connect with the BA flight. For the same flight Air Canada now charges BA $2,378 (2 x $1,189). British Airways has advised the Parliamentary and Senate Transportation Standing Committees that, in the past, domestic feed traffic in Canada represented up to 18% of their business. The marginal financial returns outlined above have led BA to suggest that it they may not continue its current level of Canadian operations. Transport Canada has stated publicly that this is an issue between the airlines.

4. U.K. Competition Review

Since the Canadian authorities have decided not to review the AC-CAI merger, British Airways has requested that the U.K. Competition Commission review the merger.[67] Earlier, the European Commission had decided not to review the merger, as it did not trigger any of the market share or other thresholds that it uses. While European Union law takes precedent in competition matters, if the Commission decides not to review a merger, then the competition authorities of individual member nations may undertake such reviews. The UK Commission is currently reviewing the merger.

5. Pacific Coastal Court Action

Only 20 July 2000, Pacific Coastal Airlines filed legal suit against Air Canada in B.C. Supreme Court, alleging that AC is using its monopoly power to reduce competition in the airline industry and hinder Pacific Coastal's service on Vancouver Island. Pacific Coastal had a contract with CAI to provide connecting flights between Vancouver and Nanaimo, Comox and Campbell River. Pacific Coastal claims that the contract is valid until 31 October 2000, and that the contract could only be voided if either party gave at least 120 days notice prior to October 31. It claims that Air Canada has not honoured the agreement since 2 April 2000 and that it only uses Pacific when AirBC is fully booked. Pacific Coastal also claims that AC maliciously and unlawfully interfered with the contract between Pacific Coastal and CAI. AC has indicated that the agreement between CAI and Pacific Coastal was terminated as part of the bankruptcy protection proceedings, stating that the contract was one of a number which were onerous or impeded the ability to conduct a successful restructuring by CAI. AC has not filed a defence yet.

[67] Formally, the U.K. Minister of Consumer and Corporate Affairs asked the Competition Commission to conduct the inquiry. The Commission was instructed to report by 3 August 2000.

Appendix F:
Air Carriers Operating at YVR

Appendix F – List of Air Carriers Operating at YVR Summer 2000

Major Airlines	Major Regional Airlines	Regional/Local Airlines	Charter Airlines
Air Canada	AirBC	Harbour Air	Air Transat
Air China	Canadian Regional Airlines	Helijet Airways	Balair/CTA Leisure
Air New Zealand[1]	Central Mountain Air	K.D. Air	Canada 3000 Airlines
Air Pacific[2]	Horizon Air	Montair	Kelowna Flight Craft
Alaska Airlines	Skywest Airlines	North Vancouver Air	Martinair
All Nippon Airways[1]	United Express	Pacific Coastal Airlines	Royal Airlines
America West Airlines	WestJet Airlines	Pacific Spirit Air	Skyservice
American Airlines		Seair	
British Airways		Shuswap Air	
Canadian Airlines		Vision Air	
Cathay Pacific			
China Pacific			
Continental Airlines			
Eva Airways			
Japan Airlines			
KLM Royal Dutch Airlines			
Korean Air			
Lufthansa			
Northwest Airlines			
Qantas			
Singapore Airlines			
TWA			
United Airlines			

[1] Code Share operated by Air Canada

[2] Code Share operated by Canadian Airlines

Appendix G:
Notes to Air Service Capacity Analysis

Appendix G: Notes to Air Service Capacity Analysis

Variations may exist between air capacity analyses due to:

- **Different time periods.**
- **Alternate data sources.**
- **Airline schedule changes.**

1. The air service capacity tables were created using data from the Official Airline Guide (OAG) MAX CD-ROM for 1999 and 2000 used by permission of Tourism British Columbia. The 2000 June –December OAG data was captured as of May 31, 2000. As the OAG includes incomplete *charter* flight data on many carriers, the OAG database was supplemented with charter flight schedule and seat capacity data from Vancouver International Airport (YVR) Flight Information Display System (FIDS) for 1999 and 2000.[68] The database was also supplemented with Canada 3000 charter flight data at Victoria International Airport.

2. Note that there are some inconsistencies in the data that create problems comparing data for the charter air carriers from 1999 to 2000. For example, advance charter data is not readily available and Fall 2000 FIDS data from YVR was estimated as the same levels as Fall 1999 FIDS YVR data. Footnotes appear in the data tables to draw attention to these data inconsistencies.

3. To ensure consistency with the on-going program of air capacity reports prepared for Tourism British Columbia by InterVISTAS Consulting, a similar methodology was applied in this investigation. The analysis distinguishes between air capacity into British Columbia (getting visitors to B.C.) and air capacity within the province (moving visitors around B.C.). The *inbound-B.C.* data includes all *non-stop* international, transborder and inter-provincial air capacity to British Columbia airports. The air capacity within the province includes only *inbound non-stop intra-B.C.* flights involving Vancouver International Airport (YVR). For example, flight frequencies between Prince George and Fort St. John would be excluded from the data. The assumption is that this type of analysis will capture the majority of capacity changes for intra-B.C. air services affecting tourism, as most visitors will be routed via the Vancouver or outside B.C. gateway. To exclude any double counting of code-shared flights only *operating carrier* (or "on metal") flights were captured.

4. Significant caution must be exercised in the analysis and interpretation of air capacity data. There are a number of reasons why variations may exist between the data presented in this report and other air capacity analyses.

   - **The time period under consideration may differ**. For example, August is the peak of the year and impacts in other months could be significantly different.

   - **The data sources may differ.** There will be some variation between the schedules and seat capacities obtained directly from an air carrier and those filed in the Official Airline

[68] There is a regulatory distinction between schedule and charter flights, even if offerings are identical.

Guide (OAG). For example, the OAG data uses average seat capacities for individual aircraft types, whereas the airline data may include more precise seat capacities based on the aircraft configurations within their fleet. Also, the airline data may include charter flight data not normally filed in the OAG, or flight schedule changes that have not been yet been included in the OAG data.

- **The dates of data capture may differ.** As airline schedules are subject to constant revision, data captured in June 2000 will differ from data captured in July 2000. The most current available data from the OAG schedule has been utilised, there are some limitations to the accuracy of the data for time periods beyond the immediate future.

- **Data captured may differ.** For example, data captured for non-stop flights will differ from data captured for one-stop or multi-stop flights.

5. Any domestic portions of international flights by international carriers have been removed from the data set as they do not carry local traffic (e.g., the Vancouver-Calgary segment of a European charter carrier operating a Vancouver-Calgary-Europe routing).

6. The "Air Canada family" includes all flights with an Air Canada (AC) or Canadian Airlines (CAI) code designator on any of the following carriers:

   - Air Alliance
   - Air Alma
   - Air Canada
   - Air Georgian
   - Air Nova
   - Air Ontario
   - Air St. Pierre
   - AirBC
   - Alberta City Link
   - Aviation Quebec Labrador
   - Calm Air
   - Canadian Airlines
   - Canadian Regional
   - Central Mountain Air
   - Labrador Airways
   - Northwest Territorial
   - Ontario Regional
   - Regionair

7. The "Other Domestic Carriers" category includes the following carriers that operate scheduled or charter flights:

   - Air Transat
   - Canada 3000
   - Royal Airlines
   - WestJet Airlines
   - A number of small Canadian operators
     e.g., Pacific Coastal Airlines, Skyward Aviation, etc.

8. The "Overseas Carriers" category includes scheduled carriers as well as a small number of international air carriers operating charter flights to/from Canada.

9. The "Other International" sector includes flights from the Mexico, the Caribbean, Central/South America.

Appendix H:
Air Service Capacity Tables

TABLE H-1: AIR SERVICE CAPACITY - INBOUND TO B.C. EXCLUDING INTRA-

(includes all non-stop inbound inter-provincial, domestic, transborder and international flight frequencies and seats to British Columbia)

August 1999 versus August 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
AC Family Carriers	Domestic	3,451	2,856	-17.2%	338,414	303,320	-10.4%
	Transborder	960	1,007	4.9%	86,584	88,937	2.7%
	Asia-Pacific	240	248	3.3%	68,378	74,772	9.4%
	Europe	77	93	20.8%	18,747	20,607	9.9%
	Other International	0	0	-	0	0	-
	Total	*4,728*	*4,204*	*-11.1%*	*512,123*	*487,636*	*-4.8%*
Other Domestic Carriers[1]	*Total*	*907*	*999*	*10.1%*	*151,317*	*163,357*	*8.0%*
US Carriers	*Total*	*2,334*	*2,496*	*6.9%*	*205,281*	*217,986*	*6.2%*
Other International Carrie	*Total*	*348*	*352*	*1.1%*	*127,712*	*129,437*	*1.4%*
Asia-Pacific Carriers		239	246	2.9%	89,824	92,537	3.0%
European Carriers		106	106	0.0%	37,288	36,900	-1.0%
Misc. International Carriers		3	0	-100.0%	600	0	-100.0%
Total Non-Domestic Carriers	*Total*	*2,682*	*2,848*	*6.2%*	*332,993*	*347,423*	*4.3%*
TOTAL		8,317	8,051	-3.2%	996,433	998,416	0.2%

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Domestic	AC Family	3,451	2,856	-17.2%	338,414	303,320	-10.4%
	Other Domestic	679	752	10.8%	98,969	105,756	6.9%
	TOTAL	*4,130*	*3,608*	*-12.6%*	*437,383*	*409,076*	*-6.5%*
Transborder	AC Family	960	1,007	4.9%	86,584	88,937	2.7%
	Other Domestic	88	100	13.6%	12,016	11,360	-5.5%
	US Carriers	2,334	2,496	6.9%	205,281	217,986	6.2%
	Overseas Carriers	31	49	58.1%	11,997	16,101	34.2%
	TOTAL	*3,413*	*3,652*	*7.0%*	*315,878*	*334,384*	*5.9%*
Other International	AC Family	317	341	7.6%	87,125	95,379	9.5%
	Other Domestic	140	147	5.0%	40,332	46,241	14.7%
	Overseas Carriers	317	303	-4.4%	115,715	113,336	-2.1%
	TOTAL	*774*	*791*	*2.2%*	*243,172*	*254,956*	*4.8%*
Asia-Pacific	AC Family	240	248	3.3%	68,378	74,772	9.4%
	Other Domestic	0	0	-	0	0	-
	Overseas Carriers	199	188	-5.5%	74,227	72,836	-1.9%
	TOTAL	*439*	*436*	*-0.7%*	*142,605*	*147,608*	*3.5%*
Europe	AC Family	77	93	20.8%	18,747	20,607	9.9%
	Other Domestic	122	118	-3.3%	36,722	39,017	6.2%
	Overseas Carriers	106	106	0.0%	37,288	36,900	-1.0%
	TOTAL	*305*	*317*	*3.9%*	*92,757*	*96,524*	*4.1%*
Misc. International	AC Family	0	0	-	0	0	-
	Other Domestic	18	29	61.1%	3,610	7,224	100.1%
	Overseas Carriers	12	9	-25.0%	4,200	3,600	-14.3%
	TOTAL	*30*	*38*	*26.7%*	*7,810*	*10,824*	*38.6%*
TOTAL[2]		8,317	8,051	-3.2%	996,433	998,416	0.2%

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat &

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and of data.

TABLE H-2: AIR SERVICE CAPACITY - TOTAL BRITISH COLUMBIA

(includes all non-stop domestic, transborder and international flight frequencies and seats to/within British Columbia)

August 1999 versus August 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
AC Family Carriers	Domestic	7,820	5,676	-27.4%	497,764	430,353	-13.5%
	Transborder	960	1,007	4.9%	86,584	88,937	2.7%
	Asia-Pacific	240	248	3.3%	68,378	74,772	9.4%
	Europe	77	93	20.8%	18,747	20,607	9.9%
	Other Internationa	0	0	-	0	0	-
	Total	*9,097*	*7,024*	*-22.8%*	*671,473*	*614,669*	*-8.5%*
Other Domestic Carriers[1]	*Total*	*1,761*	*2,386*	*35.5%*	*180,589*	*210,242*	*16.4%*
US Carriers	*Total*	*2,334*	*2,496*	*6.9%*	*205,281*	*217,986*	*6.2%*
Other International Carriers	*Total*	*348*	*352*	*1.1%*	*127,712*	*129,437*	*1.4%*
Asia-Pacific Carriers		239	246	2.9%	89,824	92,537	3.0%
European Carriers		106	106	0.0%	37,288	36,900	-1.0%
Misc. International Carriers		3	0	-100.0%	600	0	-100.0%
Total Non-Domestic Carriers	*Total*	*2,682*	*2,848*	*6.2%*	*332,993*	*347,423*	*4.3%*
TOTAL		13,540	12,258	-9.5%	1,185,055	1,172,334	-1.1%

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Domestic	AC Family	7,820	5,676	-27.4%	497,764	430,353	-13.5%
	Other Domestic	1,533	2,139	39.5%	128,241	152,641	19.0%
	TOTAL	*9,353*	*7,815*	*-16.4%*	*626,005*	*582,994*	*-6.9%*
Transborder	AC Family	960	1,007	4.9%	86,584	88,937	2.7%
	Other Domestic	88	100	13.6%	12,016	11,360	-5.5%
	US Carriers	2,334	2,496	6.9%	205,281	217,986	6.2%
	Overseas Carriers	31	49	58.1%	11,997	16,101	34.2%
	TOTAL	*3,413*	*3,652*	*7.0%*	*315,878*	*334,384*	*5.9%*
Other International	AC Family	317	341	7.6%	87,125	95,379	9.5%
	Other Domestic	140	147	5.0%	40,332	46,241	14.7%
	Overseas Carriers	317	303	-4.4%	115,715	113,336	-2.1%
	TOTAL	*774*	*791*	*2.2%*	*243,172*	*254,956*	*4.8%*
Asia-Pacific	AC Family	240	248	3.3%	68,378	74,772	9.4%
	Other Domestic	0	0	-	0	0	-
	Overseas Carriers	199	188	-5.5%	74,227	72,836	-1.9%
	TOTAL	*439*	*436*	*-0.7%*	*142,605*	*147,608*	*3.5%*
Europe	AC Family	77	93	20.8%	18,747	20,607	9.9%
	Other Domestic	122	118	-3.3%	36,722	39,017	6.2%
	Overseas Carriers	106	106	0.0%	37,288	36,900	-1.0%
	TOTAL	*305*	*317*	*3.9%*	*92,757*	*96,524*	*4.1%*
Misc. International	AC Family	0	0	-	0	0	-
	Other Domestic	18	29	61.1%	3,610	7,224	100.1%
	Overseas Carriers	12	9	-25.0%	4,200	3,600	-14.3%
	TOTAL	*30*	*38*	*26.7%*	*7,810*	*10,824*	*38.6%*
TOTAL[2]		13,540	12,258	-9.5%	1,185,055	1,172,334	-1.1%

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and foreign charter

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-3: AIR SERVICE CAPACITY - INBOUND TO B.C. EXCLUDING INTRA-B.C.

(includes all non-stop inbound inter-provincial, domestic, transborder and international flight frequencies and seats to British Columbia)

Full Year 1999 versus Full Year 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Domestic	37,417	31,468	-15.9%	3,623,679	3,235,168	-10.7%
	Transborder	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Asia-Pacific	2,590	2,755	6.4%	746,768	824,059	10.4%
	Europe	591	761	28.8%	141,381	170,325	20.5%
	Other Internation	0	64	-	0	7,168	-
	Total	*53,480*	*45,657*	*-14.6%*	*5,616,033*	*5,218,717*	*-7.1%*
Other Domestic Carriers[1]	*Total*	*9,082*	*9,579*	*5.5%*	*1,518,020*	*1,528,738*	*0.7%*
US Carriers	*Total*	*24,078*	*25,748*	*6.9%*	*1,944,365*	*2,050,646*	*5.5%*
Other International Carriers	*Total*	*3,455*	*3,752*	*8.6%*	*1,255,252*	*1,366,713*	*8.9%*
Asia-Pacific Carriers		2,350	2,633	12.0%	879,283	994,572	13.1%
European Carriers		1,095	1,119	2.2%	374,031	372,141	-0.5%
Misc. International Carriers		10	0	-100.0%	1,938	0	-100.0%
Total Non-Domestic Carriers	*Total*	*27,533*	*29,500*	*7.1%*	*3,199,617*	*3,417,359*	*6.8%*
TOTAL		**90,095**	**84,736**	**-5.9%**	**10,333,670**	**10,164,814**	**-1.6%**

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC Family	37,417	31,468	-15.9%	3,623,679	3,235,168	-10.7%
	Other Domestic	6,939	7,764	11.9%	991,144	1,057,314	6.7%
	TOTAL	*44,356*	*39,232*	*-11.6%*	*4,614,823*	*4,292,482*	*-7.0%*
Transborder	AC Family	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Other Domestic	959	792	-17.4%	197,301	156,707	-20.6%
	US Carriers	24,077	25,748	6.9%	1,944,192	2,050,646	5.5%
	Overseas Carrie	376	470	25.0%	143,581	165,354	15.2%
	TOTAL	*38,294*	*37,619*	*-1.8%*	*3,389,279*	*3,354,704*	*-1.0%*
Other International	AC Family	3,181	3,580	12.5%	888,149	1,001,552	12.8%
	Other Domestic	1,184	1,023	-13.6%	329,575	314,717	-4.5%
	Overseas Carrie	3,080	3,282	6.6%	1,111,844	1,201,359	8.1%
	TOTAL	*7,445*	*7,885*	*5.9%*	*2,329,568*	*2,517,628*	*8.1%*
Asia-Pacific	AC Family	2,590	2,755	6.4%	746,768	824,059	10.4%
	Other Domestic	1	0	-100.0%	356	0	-100.0%
	Overseas Carriers	1,871	2,059	10.0%	694,138	787,618	13.5%
	TOTAL	*4,462*	*4,814*	*7.9%*	*1,441,262*	*1,611,677*	*11.8%*
Europe	AC Family	591	761	28.8%	141,381	170,325	20.5%
	Other Domestic	598	539	-9.9%	184,042	179,832	-2.3%
	Overseas Carriers	1,093	1,118	2.3%	373,406	371,872	-0.4%
	TOTAL	*2,282*	*2,418*	*6.0%*	*698,829*	*722,029*	*3.3%*
Misc. International	AC Family	0	64	-	0	7,168	-
	Other Domestic	585	484	-17.3%	145,177	134,885	-7.1%
	Overseas Carriers	116	105	-9.5%	44,300	41,869	-5.5%
	TOTAL	*701*	*653*	*-6.8%*	*189,477*	*183,922*	*-2.9%*
TOTAL[2]		**90,095**	**84,736**	**-5.9%**	**10,333,670**	**10,164,814**	**-1.6%**

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-4: AIR SERVICE CAPACITY - TOTAL BRITISH COLUMBIA

(includes all non-stop domestic, transborder and international flight frequencies and seats to/within British Columbia)

Full Year 1999 versus Full Year 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Domestic	88,305	66,291	-24.9%	5,507,242	4,741,081	-13.9%
	Transborder	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Asia-Pacific	2,590	2,755	6.4%	746,768	824,059	10.4%
	Europe	591	761	28.8%	141,381	170,325	20.5%
	Other Internation	0	64	-	0	7,168	-
	Total	*104,368*	*80,480*	*-22.9%*	*7,499,596*	*6,724,630*	*-10.3%*
Other Domestic Carriers[1]	*Total*	*17,429*	*22,556*	*29.4%*	*1,782,161*	*1,997,102*	*12.1%*
US Carriers	*Total*	*24,078*	*25,748*	*6.9%*	*1,944,365*	*2,050,646*	*5.5%*
Other International Carriers	*Total*	*3,455*	*3,752*	*8.6%*	*1,255,252*	*1,366,713*	*8.9%*
Asia-Pacific Carriers		2,350	2,633	12.0%	879,283	994,572	13.1%
European Carriers		1,095	1,119	2.2%	374,031	372,141	-0.5%
Misc. International Carriers		10	0	-100.0%	1,938	0	-100.0%
Total Non-Domestic Carriers	*Total*	*27,533*	*29,500*	*7.1%*	*3,199,617*	*3,417,359*	*6.8%*
TOTAL		149,330	132,536	-11.2%	12,481,374	12,139,091	-2.7%

By Sector:		British Columbia					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC Family	88,305	66,291	-24.9%	5,507,242	4,741,081	-13.9%
	Other Domestic	15,286	20,741	35.7%	1,255,285	1,525,678	21.5%
	TOTAL	*103,591*	*87,032*	*-16.0%*	*6,762,527*	*6,266,759*	*-7.3%*
Transborder	AC Family	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Other Domestic	959	792	-17.4%	197,301	156,707	-20.6%
	US Carriers	24,077	25,748	6.9%	1,944,192	2,050,646	5.5%
	Overseas Carrier	376	470	25.0%	143,581	165,354	15.2%
	TOTAL	*38,294*	*37,619*	*-1.8%*	*3,389,279*	*3,354,704*	*-1.0%*
Other International	AC Family	3,181	3,580	12.5%	888,149	1,001,552	12.8%
	Other Domestic	1,184	1,023	-13.6%	329,575	314,717	-4.5%
	Overseas Carrier	3,080	3,282	6.6%	1,111,844	1,201,359	8.1%
	TOTAL	*7,445*	*7,885*	*5.9%*	*2,329,568*	*2,517,628*	*8.1%*
Asia-Pacific	AC Family	2,590	2,755	6.4%	746,768	824,059	10.4%
	Other Domestic	1	0	-100.0%	356	0	-100.0%
	Overseas Carriers	1,871	2,059	10.0%	694,138	787,618	13.5%
	TOTAL	*4,462*	*4,814*	*7.9%*	*1,441,262*	*1,611,677*	*11.8%*
Europe	AC Family	591	761	28.8%	141,381	170,325	20.5%
	Other Domestic	598	539	-9.9%	184,042	179,832	-2.3%
	Overseas Carriers	1,093	1,118	2.3%	373,406	371,872	-0.4%
	TOTAL	*2,282*	*2,418*	*6.0%*	*698,829*	*722,029*	*3.3%*
Misc. International	AC Family	0	64	-	0	7,168	-
	Other Domestic	585	484	-17.3%	145,177	134,885	-7.1%
	Overseas Carriers	116	105	-9.5%	44,300	41,869	-5.5%
	TOTAL	*701*	*653*	*-6.8%*	*189,477*	*183,922*	*-2.9%*
TOTAL[3]		149,330	132,536	-11.2%	12,481,374	12,139,091	-2.7%

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-5: AIR SERVICE CAPACITY - INBOUND TO VANCOUVER

(includes all non-stop inbound domestic, transborder and international flight frequencies and seats to Vancouver)

Full Year 1999 versus Full Year 2000

By Carrier Group:		Vancouver					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Domestic	79,695	59,348	-25.5%	5,252,698	4,482,314	-14.7%
	Transborder	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Asia-Pacific	2,590	2,755	6.4%	746,768	824,059	10.4%
	Europe	591	761	28.8%	141,381	170,325	20.5%
	Other Internation	0	64	-	0	7,168	-
	Total	*95,758*	*73,537*	*-23.2%*	*7,245,052*	*6,465,863*	*-10.8%*
Other Domestic Carriers[1]	*Total*	*14,669*	*19,696*	*34.3%*	*1,467,385*	*1,662,904*	*13.3%*
US Carriers	*Total*	*20,121*	*21,452*	*6.6%*	*1,797,956*	*1,891,694*	*5.2%*
Other International Carriers	*Total*	*3,455*	*3,752*	*8.6%*	*1,255,252*	*1,366,713*	*8.9%*
Asia-Pacific Carriers		2,350	2,633	12.0%	879,283	994,572	13.1%
European Carriers		1,095	1,119	2.2%	374,031	372,141	-0.5%
Misc. International Carriers		10	0	-100.0%	1,938	0	-100.0%
Total Non-Domestic Carriers	*Total*	*23,576*	*25,204*	*6.9%*	*3,053,208*	*3,258,407*	*6.7%*
TOTAL		134,003	118,437	-11.6%	11,765,645	11,387,174	-3.2%

By Sector:		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC Family	79,695	59,348	-25.5%	5,252,698	4,482,314	-14.7%
	Other Domestic	12,641	17,884	41.5%	942,694	1,192,164	26.5%
	TOTAL	*92,336*	*77,232*	*-16.4%*	*6,195,392*	*5,674,478*	*-8.4%*
Transborder	AC Family	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Other Domestic	844	789	-6.5%	195,116	156,023	-20.0%
	US Carriers	20,120	21,452	6.6%	1,797,783	1,891,694	5.2%
	Overseas Carrier	376	470	25.0%	143,581	165,354	15.2%
	TOTAL	*34,222*	*33,320*	*-2.6%*	*3,240,685*	*3,195,068*	*-1.4%*
Other International	AC Family	3,181	3,580	12.5%	888,149	1,001,552	12.8%
	Other Domestic[2]	1,184	1,023	-13.6%	329,575	314,717	-4.5%
	Overseas Carrier	3,080	3,282	6.6%	1,111,844	1,201,359	8.1%
	TOTAL	*7,445*	*7,885*	*5.9%*	*2,329,568*	*2,517,628*	*8.1%*
Asia-Pacific	AC Family	2,590	2,755	6.4%	746,768	824,059	10.4%
	Other Domestic	1	0	-100.0%	356	0	-100.0%
	Overseas Carriers	1,871	2,059	10.0%	694,138	787,618	13.5%
	TOTAL	*4,462*	*4,814*	*7.9%*	*1,441,262*	*1,611,677*	*11.8%*
Europe	AC Family	591	761	28.8%	141,381	170,325	20.5%
	Other Domestic[2]	598	539	-9.9%	184,042	179,832	-2.3%
	Overseas Carriers	1,093	1,118	2.3%	373,406	371,872	-0.4%
	TOTAL	*2,282*	*2,418*	*6.0%*	*698,829*	*722,029*	*3.3%*
Misc. International	AC Family	0	64	-	0	7,168	-
		585	484	-17.3%	145,177	134,885	-7.1%
	Overseas Carriers	116	105	-9.5%	44,300	41,869	-5.5%
	TOTAL	*701*	*653*	*-6.8%*	*189,477*	*183,922*	*-2.9%*
TOTAL[3]		134,003	118,437	-11.6%	11,765,645	11,387,174	-3.2%

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and foreign

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-6: AIR SERVICE CAPACITY - INTRA-BRITISH COLUMBIA
(includes all non-stop intra-British Columbia flights arriving at YVR)
August 1999 versus August 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
AC Family Carriers	Total	4,369	2,820	-35.5%	159,350	127,033	-20.3%
Other Domestic Carriers[1]	Total	854	1,387	62.4%	29,272	46,885	60.2%
TOTAL		5,223	4,207	-19.5%	188,622	173,918	-7.8%

Notes:
Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.
1 "Other Domestic" denotes other Canadian airlines.
2 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and

TABLE H-7: AIR SERVICE CAPACITY - INTRA-BRITISH COLUMBIA
(includes all non-stop intra-British Columbia flights arriving at YVR)
Full Year 1999 versus Full Year 2000

By Carrier Group:		British Columbia					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Total	50,888	34,823	-31.6%	1,883,563	1,505,913	-20.0%
Other Domestic Carriers[1]	Total	8,347	12,977	55.5%	264,141	468,364	77.3%
TOTAL		59,235	47,800	-19.3%	2,147,704	1,974,277	-8.1%

Notes:
Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.
1 "Other Domestic" denotes other Canadian airlines.
2 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and of data.

TABLE H-8: AIR SERVICE CAPACITY - INBOUND TO VICTORIA EXCLUDING

(includes all non-stop inbound domestic and transborder flight frequencies and seats to Full Year 1999 versus Full Year 2000

By Carrier Group:		Victoria					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Domestic	748	365	-51.2%	28,820	40,484	40.5%
	Transborder	83	0	-100.0%	9,296	0	-100.0%
	Total	*831*	*365*	-56.1%	*38,116*	*40,484*	6.2%
Other Domestic Carriers[1]	Total	769	677	-12.0%	83,142	82,002	-1.4%
US Carriers	Total	2,473	2,788	12.7%	91,501	103,156	12.7%
TOTAL		**4,073**	**3,830**	**-6.0%**	**212,759**	**225,642**	**6.1%**

By Sector:		Victoria					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC Family	748	365	-51.2%	28,820	40,484	40.5%
	Other Domestic	663	674	1.7%	81,128	81,318	0.2%
	TOTAL	*1,411*	*1,039*	-26.4%	*109,948*	*121,802*	10.8%
Transborder	AC Family	83	0	-100.0%	9,296	0	-100.0%
	Other Domestic	106	3	-97.2%	2,014	684	-66.0%
	US Carriers	2,473	2,788	12.7%	91,501	103,156	12.7%
	TOTAL	*2,662*	*2,791*	4.8%	*102,811*	*103,840*	1.0%
TOTAL[3]		**4,073**	**3,830**	**-6.0%**	**212,759**	**225,642**	**6.1%**

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat & interpretation of data.

4 Data excludes Columbia Pacific service which is only offered on an on-demand basis.

TABLE H-9: AIR SERVICE CAPACITY - INBOUND TO KELOWNA EXCLUDING INTRA-
(includes all non-stop inbound domestic and transborder flight frequencies and seats to Full Year 1999 versus Full Year 2000

By Carrier Group:		Kelowna					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Total	3,071	2,486	-19.0%	112,185	126,505	12.8%
Other Domestic Carriers[1]	Total	1,640	1,707	4.1%	196,800	205,944	4.6%
US Carriers	Total	1,484	1,508	1.6%	54,908	55,796	1.6%
TOTAL		**6,195**	**5,701**	**-8.0%**	**363,893**	**388,245**	**6.7%**

By Sector:		Kelowna					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC Family	3,071	2,486	-19.0%	112,185	126,505	12.8%
	Other Domestic	1,640	1,707	4.1%	196,800	205,944	4.6%
	TOTAL	*4,711*	*4,193*	*-11.0%*	*308,985*	*332,449*	*7.6%*
Transborder	US Carriers	1,484	1,508	1.6%	54,908	55,796	1.6%
TOTAL[2]		**6,195**	**5,701**	**-8.0%**	**363,893**	**388,245**	**6.7%**

Notes:
Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.
1 "Other Domestic" denotes other Canadian airlines.
2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat &
3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and of data.

TABLE H-10: AIR SERVICE CAPACITY FROM YVR TO SELECT B.C. AIRPORTS
(includes all non-stop inbound intra-provincial flight frequencies and seats from Vancouver)
Full Year 1999 versus Full Year 2000

By Carrier Group:		Cranbrook					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Total	999	787	-21.2%	48,235	35,489	-26.4%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		999	787	-21.2%	48,235	35,489	-26.4%

By Carrier Group:		Williams Lake					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Total	990	969	-2.1%	38,027	36,508	-4.0%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		990	969	-2.1%	38,027	36,508	-4.0%

By Carrier Group:		Smithers					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC Family Carriers	Total	2,098	898	-57.2%	61,892	38,385	-38.0%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		2,098	898	-57.2%	61,892	38,385	-38.0%

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight
1 "Other Domestic" denotes other Canadian airlines.
2 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and of data.

TABLE H-11: AIR SERVICE CAPACITY BY KEY MARKETS
(includes all non-stop inbound flight frequencies and seats to B.C.)
August 1999 versus August 2000

		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Short Haul Domestic							
Calgary	Air Canada Family	1,042	740	-28.98%	101,460	72,098	-28.94%
	Other Domestic Carrier	157	209	33.12%	19,476	25,080	28.77%
	Total	*1,199*	*949*	*-20.85%*	*120,936*	*97,178*	*-19.65%*
Edmonton	Air Canada Family	456	387	-15.13%	35,025	29,646	-15.36%
	Other Domestic Carrier	209	261	24.88%	25,966	31,806	22.49%
	Total	*665*	*648*	*-2.56%*	*60,991*	*61,452*	*0.76%*
Long Haul Domestic							
Toronto	Air Canada Family	603	610	1.16%	115,418	114,759	-0.57%
	Other Domestic Carrier	88	71	-19.32%	19,649	14,801	-24.67%
	Total	*691*	*681*	*-1.45%*	*135,067*	*129,560*	*-4.08%*
Long Haul U.S.							
San Francisco	Air Canada Family	124	124	0.00%	14,384	13,764	-4.31%
	US Carriers	159	163	2.52%	22,700	25,576	12.67%
	Total	*283*	*287*	*1.41%*	*37,084*	*39,340*	*6.08%*
Los Angeles	Air Canada Family	208	155	-25.48%	20,800	20,460	-1.63%
	Other Domestic Carrier	23	22	-4.35%	4,002	3,828	-4.35%
	US Carriers	186	217	16.67%	25,606	30,504	19.13%
	Total	*417*	*394*	*-5.52%*	*50,408*	*54,792*	*8.70%*
Chicago	Air Canada Family	93	93	0.00%	10,292	11,284	9.64%
	US	93	93	0.00%	13,640	14,198	4.09%
	Total	*186*	*186*	*0.00%*	*23,932*	*25,482*	*6.48%*
Asia Pacific							
Tokyo	AC Family	40	31	-22.50%	10,074	13,051	29.55%
	Overseas Carriers	53	52	-1.89%	21,200	20,800	-1.89%
	Total	*93*	*83*	*-10.75%*	*31,274*	*33,851*	*8.24%*
Nagoya	AC Family	31	31	0.00%	6,510	6,510	0.00%
Osaka	AC Family	31	31	0.00%	8,184	8,184	0.00%
Taipei	Air Canada Family	44	31	-29.55%	16,483	13,051	-20.82%
	Overseas Carriers	57	44	-22.81%	21,191	17,941	-15.34%
	Total	*101*	*75*	*-25.74%*	*37,674*	*30,992*	*-17.74%*
Hong Kong	Air Canada Family	49	62	26.53%	17,803	21,235	19.28%
	Overseas Carriers	62	62	0.00%	23,994	23,994	0.00%
	Total	*111*	*124*	*11.71%*	*41,797*	*45,229*	*8.21%*
Seoul	Air Canada Family	14	31	121.43%	2,814	6,231	121.43%
	Overseas Carriers	27	22	-18.52%	7,842	6,901	-12.00%
	Total	*41*	*53*	*29.27%*	*10,656*	*13,132*	*23.24%*
Europe							
London	Air Canada Family	77	93	20.78%	18,747	20,607	9.92%
	Other Domestic Carrier	41	49	19.51%	12,754	15,738	23.40%
	Overseas Carriers	31	31	0.00%	12,400	12,400	0.00%
	Total	*149*	*173*	*16.11%*	*43,901*	*48,745*	*11.03%*
Frankfurt	Other Domestic Carrier	9	13	44.44%	3,016	4,393	45.66%
	Overseas Carriers	31	31	0.00%	12,400	12,400	0.00%
	Total	*40*	*44*	*10.00%*	*15,416*	*16,793*	*8.93%*
Amsterdam	Other Domestic Carrier	9	8	-11.11%	2,936	2,784	-5.18%
	Overseas Carriers	39	40	2.56%	11,383	11,220	-1.43%
	Total	*48*	*48*	*0.00%*	*14,319*	*14,004*	*-2.20%*

Notes:

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.

1 "Other Domestic" denotes other Canadian airlines.

2 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat and foreign

3 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-12: AIR SERVICE CAPACITY - INTRA-B.C. SERVICE FROM
(includes all non-stop inbound flight frequencies and seats from YVR to B.C. tourism Full Year 1999 versus Full Year 2000

		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Region A The Islands	Air Canada Family	25,495	17,132	-32.80%	827,769	713,414	-13.81%
	Other Domestic Carrie	4,165	8,550	105.28%	63,094	184,386	192.24%
	Total	*29,660*	*25,682*	*-13.41%*	*890,863*	*897,800*	*0.78%*
Region B Vancouver, Coast and Mountains	Air Canada Family	0	0	-	0	0	-
	Other Domestic Carrie	1,801	1,774	-1.50%	32,418	26,610	-17.92%
	Total	*1,801*	*1,774*	*-1.50%*	*32,418*	*26,610*	*-17.92%*
Region C Thompson Okanagan	Air Canada Family	10,232	7,350	-28.17%	373,120	293,442	-21.35%
	Other Domestic Carrie	1,532	1,370	-10.57%	123,511	163,964	32.75%
	Total	*11,764*	*8,720*	*-25.88%*	*496,631*	*457,406*	*-7.90%*
Region D BC Rockies	AC Family	2,775	1,978	-28.72%	103,353	80,296	-22.31%
	Other Domestic Carrie	80	0	-100.00%	846	0	-100.00%
	Total	*2,855*	*1,978*	*-30.72%*	*104,199*	*80,296*	*-22.94%*
Region E Cariboo Country	Air Canada Family	1,275	1,102	-13.57%	43,442	39,035	-10.14%
	Other Domestic Carrie	544	604	11.03%	10,050	11,476	14.19%
	Total	*1,819*	*1,706*	*-6.21%*	*53,492*	*50,511*	*-5.57%*
Region F Northern B.C.	Air Canada Family	11,111	7,261	-34.65%	535,879	379,726	-29.14%
	Other Domestic Carrie	285	679	138.25%	34,770	81,928	135.63%
	Total	*11,396*	*7,940*	*-30.33%*	*570,649*	*461,654*	*-19.10%*
TOTAL		**59,295**	**47,800**	**-19.4%**	**2,148,252**	**1,974,277**	**-8.1%**

Notes:
Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule.
1 "Other Domestic" denotes other Canadian airlines.
2 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

TABLE H-13: AIR SERVICE CAPACITY VERSUS WEST COAST COMPETITORS

(includes all non-stop inbound flight frequencies and seats)
August 1999 versus August 2000

		Frequency			Market Share	Seat Capacity			Market Share
		Aug-99	Aug-00	% change	Year 2000	Aug-99	Aug-00	% change	Year 2000
Asia Pacific									
Tokyo	YVR	93	83	-10.75%	13.90%	31,274	33,851	8.24%	15.93%
	SEA	93	93	0.00%	15.58%	34,100	27,838	-18.36%	13.10%
	SFO	151	143	-5.30%	23.95%	55,350	50,214	-9.28%	23.63%
	LAX	283	278	-1.77%	46.57%	101,675	100,614	-1.04%	47.34%
	Total	*620*	*597*	*-3.71%*	*100.00%*	*222,399*	*212,517*	*-4.44%*	*100.00%*
Nagoya	YVR	31	31	0.00%	53.45%	6,510	6,510	0.00%	48.07%
	SEA	0	0	N/A	0.00%	0	0	N/A	0.00%
	SFO	0	0	N/A	0.00%	0	0	N/A	0.00%
	LAX	27	27	0.00%	46.55%	7,436	7,033	-5.42%	51.93%
	Total	*58*	*58*	*0.00%*	*100.00%*	*13,946*	*13,543*	*-2.89%*	*100.00%*
Osaka	YVR	31	31	0.00%	18.45%	8,184	8,184	0.00%	14.63%
	SEA	31	31	0.00%	18.45%	8,370	8,711	4.07%	15.57%
	SFO	31	31	0.00%	18.45%	11,532	11,532	0.00%	20.61%
	LAX	75	75	0.00%	44.64%	27,027	27,523	1.84%	49.19%
	Total	*168*	*168*	*0.00%*	*100.00%*	*55,113*	*55,950*	*1.52%*	*100.00%*
Taipei	YVR	101	75	-25.74%	23.22%	37,674	30,992	-17.74%	23.92%
	SEA	13	13	0.00%	4.02%	4,914	4,914	0.00%	3.79%
	SFO	62	62	0.00%	19.20%	24,273	24,273	0.00%	18.73%
	LAX	164	173	5.49%	53.56%	66,101	69,413	5.01%	53.56%
	Total	*340*	*323*	*-5.00%*	*100.00%*	*132,962*	*129,592*	*-2.53%*	*100.00%*
Hong Kong	YVR	111	124	11.71%	42.32%	41,797	45,229	8.21%	42.83%
	SEA	0	0	N/A	0.00%	0	0	N/A	0.00%
	SFO	93	93	0.00%	31.74%	31,434	31,434	0.00%	29.76%
	LAX	75	76	1.33%	25.94%	28,560	28,947	1.36%	27.41%
	Total	*279*	*293*	*5.02%*	*100.00%*	*101,791*	*105,610*	*3.75%*	*100.00%*
Seoul	YVR	41	53	29.27%	19.34%	10,656	13,132	23.24%	14.31%
	SEA	31	31	0.00%	11.31%	12,400	12,400	0.00%	13.51%
	SFO	40	93	132.50%	33.94%	12,412	29,078	134.27%	31.68%
	LAX	92	97	5.43%	35.40%	35,250	37,170	5.45%	40.50%
	Total	*204*	*274*	*34.31%*	*100.00%*	*70,718*	*91,780*	*29.78%*	*100.00%*
Europe									
London	YVR	149	173	16.11%	26.41%	43,901	48,745	11.03%	22.03%
	SEA	44	31	-29.55%	4.73%	17,644	12,400	-29.72%	5.60%
	SFO	155	172	10.97%	26.26%	55,521	64,801	16.71%	29.28%
	LAX	279	279	0.00%	42.60%	95,666	95,356	-0.32%	43.09%
	Total	*627*	*655*	*4.47%*	*100.00%*	*212,732*	*221,302*	*4.03%*	*100.00%*
Frankfurt	YVR	40	44	10.00%	25.00%	15,416	16,793	8.93%	25.37%
	SEA	0	0	N/A	0.00%	0	0	N/A	0.00%
	SFO	31	62	100.00%	35.23%	12,400	21,452	73.00%	32.41%
	LAX	70	70	0.00%	39.77%	28,256	27,936	-1.13%	42.21%
	Total	*141*	*176*	*24.82%*	*100.00%*	*56,072*	*66,181*	*18.03%*	*100.00%*
Amsterdam	YVR	48	48	0.00%	34.53%	14,319	14,004	-2.20%	30.25%
	SEA	31	31	0.00%	22.30%	8,370	8,711	4.07%	18.81%
	SFO	31	16	-48.39%	11.51%	9,207	6,400	-30.49%	13.82%
	LAX	39	44	12.82%	31.65%	15,184	17,184	13.17%	37.12%
	Total	*149*	*139*	*-6.71%*	*100.00%*	*47,080*	*46,299*	*-1.66%*	*100.00%*
South Pacific									
Sydney	YVR	0	0	N/A	0.00%	0	0	N/A	0.00%
	SEA	0	0	N/A	0.00%	0	0	N/A	0.00%
	SFO	31	31	0.00%	17.61%	11,532	11,532	0.00%	17.76%
	LAX	136	145	6.62%	82.39%	51,342	53,398	4.00%	82.24%
	Total	*167*	*176*	*5.39%*	*100.00%*	*62,874*	*64,930*	*3.27%*	*100.00%*
Auckland	YVR	0	0	N/A	0.00%	0	0	N/A	0.00%
	SEA	0	0	N/A	0.00%	0	0	N/A	0.00%
	SFO	0	0	N/A	0.00%	0	0	N/A	0.00%
	LAX	109	102	-6.42%	100.00%	42,934	38,310	-10.77%	100.00%
	Total	*109*	*102*	*-6.42%*	*100.00%*	*42,934*	*38,310*	*-10.77%*	*100.00%*

Notes:

Source: Official Airline Guide OAG-MAX August 1999 and June 2000 data disks.
1 Caution: Frequency and capacity data totals may not include all charter operations by Royal Airlines, Air Transat & foreign
2 See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

Appendix I:
Air Service Capacity Tables For Key Inbound Markets and B.C. Airports (with text comments)

Appendix I: Air Service Capacity Tables for Key Inbound Markets and B.C. Airports

1. Air Capacity for Key Markets Inbound to B.C.

Table I-1: Air Capacity for Key Markets Inbound to B. C. (August 1999 vs. August 2000)
(includes all non-stop, inbound flight frequencies and seats to B.C.)

		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Short Haul Domestic							
Calgary	Air Canada family	1,042	740	-29.0%	101,460	72,098	-28.9%
	Other Domestic Carriers	157	209	33.1%	19,476	25,080	28.8%
	Total	*1,199*	*949*	*-20.9%*	*120,936*	*97,178*	*-19.6%*
Edmonton	Air Canada family	456	387	-15.1%	35,025	29,646	-15.4%
	Other Domestic Carriers	209	261	24.9%	25,966	31,806	22.5%
	Total	*665*	*648*	*-2.6%*	*60,991*	*61,452*	*0.76%*
Long Haul Domestic							
Toronto	Air Canada family	603	610	1.2%	115,418	114,759	-0.6%
	Other Domestic Carriers	88	71	-19.3%	19,649	14,801	-24.7%
	Total	*691*	*681*	*-1.5%*	*135,067*	*129,560*	*-4.1%*
Long Haul U.S.							
San Francisco	Air Canada family	124	124	0.0%	14,384	13,764	-4.3%
	U.S. Carriers	159	163	2.5%	22,700	25,576	12.7%
	Total	*283*	*287*	*1.4%*	*37,084*	*39,340*	*6.1%*
Los Angeles	Air Canada family	208	155	-25.5%	20,800	20,460	-1.6%
	Other Domestic Carriers	23	22	-4.3%	4,002	3,828	-4.3%
	U.S. Carriers	186	217	16.7%	25,606	30,504	19.1%
	Total	*417*	*394*	*-5.5%*	*50,408*	*54,792*	*8.7%*
Chicago	Air Canada family	93	93	0.0%	10,292	11,284	9.6%
	U.S.	93	93	0.0%	13,640	14,198	4.1%
	Total	*186*	*186*	*0.0%*	*23,932*	*25,482*	*6.5%*
Asia Pacific							
Tokyo	AC family	40	31	-22.5%	10,074	13,051	29.6%
	Overseas Carriers	53	52	-1.9%	21,200	20,800	-1.9%
	Total	*93*	*83*	*-10.8%*	*31,274*	*33,851*	*8.2%*
Nagoya	Air Canada family	31	31	0.0%	6,510	6,510	0.0%
Osaka	Air Canada family	31	31	0.0%	8,184	8,184	0.0%
Taipei	Air Canada family	44	31	-29.5%	16,483	13,051	-20.8%
	Overseas Carriers	57	44	-22.8%	21,191	17,941	-15.3%
	Total	*101*	*75*	*-25.7%*	*37,674*	*30,992*	*-17.7%*

		Frequency			Seat Capacity		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Hong Kong	Air Canada family	49	62	26.5%	17,803	21,235	19.3%
	Overseas Carriers	62	62	0.0%	23,994	23,994	0.0%
	Total	*111*	*124*	*11.7%*	*41,797*	*45,229*	*8.2%*
Seoul	Air Canada family	14	31	121.4%	2,814	6,231	121.4%
	Overseas Carriers	27	22	-18.5%	7,842	6,901	-12.0%
	Total	*41*	*53*	*29.3%*	*10,656*	*13,132*	*23.2%*
		Frequency			**Seat Capacity**		
		Aug-99	Aug-00	% change	Aug-99	Aug-00	% change
Europe							
London	Air Canada family	77	93	20.8%	18,747	20,607	9.9%
	Other Domestic Carriers	41	49	19.5%	12,754	15,738	23.4%
	Overseas Carriers	31	31	0.0%	12,400	12,400	0.0%
	Total	*149*	*173*	*16.1%*	*43,901*	*48,745*	*11.0%*
Frankfurt	Other Domestic Carriers	9	13	44.4%	3,016	4,393	45.7%
	Overseas Carriers	31	31	0.0%	12,400	12,400	0.0%
	Total	*40*	*44*	*10.0%*	*15,416*	*16,793*	*8.9%*
Amsterdam	Other Domestic Carriers	9	8	-11.1%	2,936	2,784	-5.2%
	Overseas Carriers	39	40	2.6%	11,383	11,220	-1.4%
	Total	*48*	*48*	*0.0%*	*14,319*	*14,004*	*-2.2%*

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

2. Air Capacity Changes Inbound to Victoria Int'l Airport

Victoria International Airport is the largest airport in the 'Islands' region, accounting for half of total air capacity in the region. Over the full year, Victoria International Airport (YYJ) will receive 51% fewer domestic flights (excluding intra-B.C. flights), but 41% more seats from the AC family. The loss is predominately attributed to reductions in Victoria-Calgary service (on 37 and 50 seat Dash-8 aircraft), while the increase in capacity can be attributed to the introduction of Victoria-Toronto service (on 132 seat A320 aircraft). YYJ will also experience reductions in capacity among the other domestic carriers (North Vancouver Air and Canada 3000 experienced decreases in service while WestJet experienced slight increases). The introduction of one additional daily flight between Victoria and Seattle (Alaska Airlines) has resulted in an increase of 1% in seats and 5% in frequency from the U.S. Overall, YYJ will experience a 6% decline in frequencies and a 6% increase in seats during 2000.

Table I-2: Air Capacity Changes Inbound to Victoria Int'l Airport (1999 vs. 2000)
(includes all non-stop, inbound domestic and transborder frequencies and seats to Victoria; excludes intra-B.C.)

By Sector:		Victoria					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC family	748	365	-51.2%	28,820	40,484	40.5%
	Other Domestic	663	674	-100.0%	81,128	81,318	0.2%
	TOTAL	*1,411*	*1,039*	*-56.1%*	*109,948*	*121,802*	10.8%
Transborder	AC family	83	0	-100.0%	9,296	0	-100.0%
	Other Domestic	106	3	-97.2%	2,014	684	-66.0%
	U.S. Carriers	2,473	2,788	12.7%	91,501	103,156	12.7%
	TOTAL	*2,662*	*2,791*	4.8%	*102,811*	*103,840*	1.0%
TOTAL[3]		**4,073**	**3,830**	**-6.0%**	**212,759**	**225,642**	**6.1%**

Note: Victoria data excludes Columbia Pacific flights as services are only operated on an on-demand basis. See notes in Appendix G and H.

3. Air Capacity Changes Inbound to YVR

Due to YVR's dominant position in the region, capacity changes in the province over the full year mirror those of YVR. One capacity change that is revealed in the annual data is the reduction of AC transborder services. Even combined with increases by the U.S. carriers, the transborder sector will experience a marginal decline of 3% in flight frequency and 1% in seat capacity.

Table I-3: Air Capacity Changes Inbound to YVR (1999 vs. 2000)
(includes all non-stop, inbound domestic, transborder and international frequencies and seats to Vancouver)

By Sector:		Vancouver					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC family	79,695	59,348	-25.5%	5,252,698	4,482,314	-14.7%
	Other Domestic	12,641	17,884	41.5%	942,694	1,192,164	26.5%
	TOTAL	*92,336*	*77,232*	*-16.4%*	*6,195,392*	*5,674,478*	*-8.4%*
Transborder	AC family	12,882	10,609	-17.6%	1,104,205	981,997	-11.1%
	Other Domestic	844	789	-6.5%	195,116	156,023	-20.0%
	U.S. Carriers	20,120	21,452	6.6%	1,797,783	1,891,694	5.2%
	Overseas Carriers	376	470	25.0%	143,581	165,354	15.2%
	TOTAL	*34,222*	*33,320*	*-2.6%*	*3,240,685*	*3,195,068*	*-1.4%*
Other International	AC family	3,181	3,580	12.5%	888,149	1,001,552	12.8%
	Other Domestic[2]	1,184	1,023	-13.6%	329,575	314,717	-4.5%
	Overseas Carriers	3,080	3,282	6.6%	1,111,844	1,201,359	8.1%
	TOTAL	*7,445*	*7,885*	*5.9%*	*2,329,568*	*2,517,628*	*8.1%*
Asia-Pacific	AC family	2,590	2,755	6.4%	746,768	824,059	10.4%
	Other Domestic	1	0	-100.0%	356	0	-100.0%
	Overseas Carriers	1,871	2,059	10.0%	694,138	787,618	13.5%
	TOTAL	*4,462*	*4,814*	*7.9%*	*1,441,262*	*1,611,677*	*11.8%*
Europe	AC family	591	761	28.8%	141,381	170,325	20.5%
	Other Domestic[2]	598	539	-9.9%	184,042	179,832	-2.3%
	Overseas Carriers	1,093	1,118	2.3%	373,406	371,872	-0.4%
	TOTAL	*2,282*	*2,418*	*6.0%*	*698,829*	*722,029*	*3.3%*
Misc. International	AC Family	0	64	-	0	7,168	-
		585	484	-17.3%	145,177	134,885	-7.1%
	Overseas Carriers	116	105	-9.5%	44,300	41,869	-5.5%
	TOTAL	*701*	*653*	*-6.8%*	*189,477*	*183,922*	*-2.9%*
TOTAL[3]		**134,003**	**118,437**	**-11.6%**	**11,765,645**	**11,387,174**	**-3.2%**

Source: Official Airline Guide OAG-MAX February and August 1999 and January-June 2000 data disks, YVR Flight Information Display System (FIDS), Canada 3000 Flight Schedule. 1) "Other Domestic" denotes other Canadian airlines. 2) See notes to Air Capacity Tables in Appendix G for additional discussion on methodology, limitations and interpretation of data.

4. Air Capacity Changes to Regional Airports

Kelowna Airport fared slightly better than the other airports in the region. A reduction by AC of 19% of frequency, but an increase of 13% in seats (due to larger aircraft on certain routes), combined with modest increases from WestJet and Alaska Airlines service yielded a net result of 8% less flights at Kelowna, but an increase of 7% in seats over the year.

Table I-4: Air Capacity Changes Inbound to Kelowna (1999 vs. 2000)
(includes all non-stop, inbound domestic and transborder frequencies and seats to Kelowna; excludes intra-B.C.)

By Sector:		Kelowna					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
Domestic	AC family	3,071	2,486	-19.0%	112,185	126,505	12.8%
	Other Domestic	1,640	1,707	4.1%		205,944	4.6%
	TOTAL	*4,711*	*4,193*	*-11.0%*	*196,800*	*332,449*	*7.6%*
Transborder	U.S. Carriers	1,484	1,508	1.6%	54,908	55,796	1.6%
TOTAL[3]		**6,195**	**5,701**	**-8.0%**	**363,893**	**388,245**	**6.7%**

At Cranbrook Airport, capacity reductions by AC will result in 21% fewer flights and 26% fewer seats during 2000.

Table I-5: Air Capacity Changes Inbound to Cranbrook Airport from YVR (1999 vs. 2000)
(includes all non-stop, inbound intra-provincial frequencies and seats from YVR)

By Carrier Group: (Domestic)		Cranbrook					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC family Carriers	Total	999	787	-21.2%	48,235	35,489	-26.4%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		**999**	**787**	**-21.2%**	**48,235**	**35,489**	**-26.4%**

Williams Lake Airport will experience capacity reductions by AC in the order of only 2% fewer flights and 4% fewer seats during 2000.

Table I-6: Air Capacity Changes Inbound to Williams Lake Airport from YVR (1999 vs. 2000)
(includes all non-stop, inbound intra-provincial frequencies and seats from YVR)

By Carrier Group: (Domestic)		Williams Lake					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC family Carriers	Total	990	969	-2.1%	38,027	36,508	-4.0%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		**990**	**969**	**-2.1%**	**38,027**	**36,508**	**-4.0%**

At the Smithers Airport, air capacity reductions by the AC will result in 57% fewer flights and 38% fewer seats during 2000.

Table I-7: Air Capacity Changes Inbound to Smithers Airport from YVR (1999 vs. 2000)
(includes all non-stop, inbound intra-provincial frequencies and seats from YVR)

By Carrier Group: (Domestic)		Smithers					
		Frequency			Seat Capacity		
		1999	2000	% change	1999	2000	% change
AC family Carriers	Total	2,098	898	-57.2%	61,892	38,385	-38.0%
Other Domestic Carriers[1]	Total	0	0	-	0	0	-
TOTAL		**2,098**	**898**	**-57.2%**	**61,892**	**38,385**	**-38.0%**

Appendix J:
Airline Load Factor Data

Appendix J: Airline Load Factor Data

Table J-1: Air Canada and Canadian Airlines Domestic Load Factors (YTD 2000)

	Air Canada			Canadian Airlines		
	1999 %	2000 %	Change (points)	1999 %	2000 %	Change (points)
January	65.2	65.2	-	64.8	57.2	-7.6
February	68.0	71.1	+3.1	67.0	70.2	+3.1
March	69.6	73.1	+3.5	66.8	74.1	+7.3
April	70.1	78.0	+7.9	63.8	70.6	+6.8
May	73.1	79.3	+6.2	70.7	75.8	+5.1
June	76.2	-	-	74.4	-	-
July	75.7	-	-	77.3	-	-
August	80.2	-	-	77.2	-	-
September	71.6	-	-	65.8	-	-
October	75.4	-	-	68.6	-	-
November	67.3	-	-	62.0	-	-
December	68.1	-	-	60.8	-	-

Sources: Canadian Airlines and Air Canada (June 2000).

Table J-2: Canadian Regional and WestJet System Load Factors (YTD 2000)*

	Canadian Regional			WestJet		
	1999 %	2000 %	Change (points)	1999 %	2000 %	Change (points)
January	56.8	53.3	-3.5	69.7	65.3	-4.4
February	61.6	64.5	+2.9	71.8	74.5	+2.7
March	59.4	60.8	+1.4	70.9	78.3	+7.4
April	59.4	60.6	+1.2	70.8	77.7	+6.9
May	58.3	58.9	+.6	70.6	75.3	+4.7
June	56.9	-	-	72.2	-	-
July	57.0	-	-	78.8	-	-
August	57.1	-	-	79.2	-	-
September	53.8	-	-	68.4	-	-
October	55.1	-	-	70.3	-	-
November	57.1	-	-	67.9	-	-
December	60.2	-	-	72.3	-	-

*System-wide data will include some transborder traffic on both carriers. Sources Canadian Regional, WestJet (June 2000).

Appendix K:
Airfare Data Notes

Appendix K: Airfare Data Notes

1. Published Airfares

Published airfares are not always the most reliable source of the lowest airfare levels available in the marketplace. There are a number of exceptions related to network of travel industry consolidators, the emergence of e-commerce sales and alternate distribution channels used by low cost carriers.

- **Consolidators.** These are often tour operators and/or travel agents, who purchase airline seats at bulk discount rates. The discount tickets are then distributed to consumers through the travel agency network with an additional mark-up added by the agency. The use of consolidators is prevalent in the international travel market yet is less common in the Canadian market. Historically, consolidator tickets were sold to the "visiting friends and relatives" market and the ethnic markets. The market share of consolidators was believed to be relatively small. However, a more recent shift towards greater usage of Canadian consolidators for international tickets is related to increased pressure placed on travel agencies with new airline commission caps and structures, and the need to remain competitive in the marketplace.

- **E-Commerce.** Driven by the desire to reduce ticket distribution costs, airlines are increasing their focus on the use of e-commerce distribution channels for airline tickets. Many air carriers offer heavily restricted discount airfares (that may or may not be published) available only via direct airline-consumers website transactions. At present, only a very small percentage of ticket sales flow through website distribution channels ticketing.[69]

- **Non-participation in ATPCO and CRS.** Not all scheduled carriers publish rates through the ATPCO and CRS systems. However, since scheduled carriers tend to react to competition from rival scheduled carriers in the market, often the lowest published rates are similar to fare levels offered by the discount carriers. Also, airfares for charter airlines are not usually published through the ATPCO and CRS systems, as they are sold through tour operator/wholesaler distribution channels.

2. Airline International Through Fares and Revenue Division

The following discussion has been prepared to explain the process of developing airfare rates and "through" fares charged to passengers. The process of dividing the revenue collected between the air carriers or the "proration" is also outlined.

- **The rate-making process and "through" fares**

[69] Fewer that 2% of Air Canada's bookings are made on-line. "Air Canada Products Help Top Fliers Book On-line", Globe and Mail, March 8, 2000.

The rate-making process of international air carriers begins with a fare structure applicable to all non-stop flights between city pairs throughout the world. The International Air Transport Association (IATA) process of multi-lateral interlining then allows other carriers to match the non-stop price by offering connections through gateway airports. At one stage of its rate-making process IATA limited circuitous interlining routings to be within 120% of the direct non-stop service (without the application of a surcharge). For example, if a particular connection took the passenger 50% further in distance than the established direct route mileage then the passenger would have to pay a 10% surcharge.

A second aspect of the rate-making process is the establishment of a system of easily-calculated levels of "through" fares to points where there is no non-stop direct services but the carriers felt that the customer should benefit from special prices. The system is based on select gateway cities where all fare types and levels apply and then what are called "arbitraries" or "add ons" are combined with these gateway fares to form the through fare with which all carriers can participate. The use of arbitraries is a means of not having to publish millions of new through fares every time there is a change to the gateway fare. It is an administrative short cut.

- **Airfare Revenue Division (Proration)**

Having established international through fares that all airlines could participate in, IATA needed a set of rules to divide the revenue of the fare between the airlines participating in the carriage. In the airline industry this is known as revenue proration (division).

One of the main reasons for the creation of the International Air Transport Association (IATA) was to enable air carriers throughout the world to establish airfares (including through fares over connection services) and to establish the division of revenues between air carriers for these prices. The IATA process has focused on worldwide airfares with no jurisdiction or involvement with domestic fares within a single country. Similarly, IATA has no involvement with airfares between Canada and the U.S. or in the prorate of these fares.

Most air bilaterals between countries include an article that pertains to the approval of airfares by the government of either country. The air bilaterals, however, do not involve any process for establishing airfares but simply govern the provisions for regulating airfares (unless the bilateral is an Open Skies agreement). No air bilaterals or treaties involving Canada have ever made reference to revenue proration.

The standard method of proration of international fares throughout the world is called straight-rate proration. This is simple calculation of the percentage that each participating air carrier receives on the basis of the ratio of normal economy fares on each sector. This kind of proration is the norm. However, air carriers throughout the world have dictated that carriage in their home based country (domestic travel) was a different matter. In these cases the airlines have specified the fixed amount that they expect to receive, regardless of fare types. In these situations the domestic carrier requires these amounts from any airline that wishes to participate in the market.

Carriers may make a special arrangement utilising the straight-rate prorate method for alliance partners. (Individual commercial agreements or alliances between air carriers, particularly when code-sharing is involved, may include a special arrangement on revenue division).

The industry also has a safeguard for any air carriers receiving less than 8% of their normal economy airfare, after all previous amounts have been deducted. If any one carrier on a routing receives less than 8% of their normal fare then the division reverts to straight-rate proration.

3. Limitations to the IATA Bank Settlement Plan (BSP) Data

- Average BSP airfares cannot be assumed to be industry wide averages, as not all air carriers participate in the IATA BSP system. For example, WestJet airfares are excluded, as are charter fares.
- Ticket sales by airlines directly to the consumer are not included in the data set. This excludes approximately 15-20+% of airfare ticket sales for scheduled air services in Canada.[70]
- A small percentage of data anomalies exist due to the broad classification system for ticket destination. For example, handling of prepaid tickets purchased in Canada from a U.S. origin point to a destination in Canada.

[70] Historically, per IATA, about 15% of ticket volumes on scheduled air services were issued directly by the air carriers. Recent reports indicate that this number has shifted to 20+%, due in part the rise in electronic tickets, internet sales, service fees by travel agents, etc. A recent U.S.-based report indicated that carrier direct sales might be as high as 30% in some regions.

Appendix L:
Comparative Airfare Data

Appendix L: Comparative Airfare Data

Table L-1: summarises the year over year changes in airfare levels from key Tourism British Columbia markets to Vancouver.

Table L-1: Inbound AC Published Airfares to YVR (August 1999 versus August 2000)

Origin by Region & City	Curr.	Economy (Return) Fare Basis	Aug-99	Aug-00	%	Excursion (Return High Season) Fare Basis	1999	2000	%
Asia									
Hong Kong	HKD	Y2	$ 16,780	$ 17,280	3.0%	VHWGV or BHWAPRT	$ 15,810	$16,280	3.0%
Tokyo	JPY	Y4R	299,990	308,900	3.0%	BHWGV	220,000	225,000	2.3%
Europe									
Frankfurt	DEM	YR	6096	6096	0.0%	HHAP2MCA	1649	1679	1.8%
London	UKL	Y2UK	1002	1032	3.0%	MHWABW/ MHWABW1	785	882	12.4%
USA									
Chicago	USD	Y/Y1	$ 1,754	$ 1,828	4.2%	V21NR	$ 585	$ 617	5.5%
Los Angeles	USD	Y/Y1	$ 872	$ 900	3.2%	V21NR	$ 351	$ 378	7.7%
San Francisco	USD	Y/Y1	$ 836	$ 864	3.3%	V21NR	$ 351	$ 373	6.3%
Canada									
Calgary	CAD	Y/Y1	$ 868	$ 894	3.0%	VW7RBST	$ 284	$ 293	3.2%
Halifax	CAD	Y/Y1	$ 3,350	$ 3,450	3.0%	VHCANADA	$ 1,002	$ 944	-5.8%
Montreal	CAD	Y/Y1	$ 3,034	$ 3,126	3.0%	VHCANADA	$ 750	$ 709	-5.5%
Toronto	CAD	Y/Y1	$ 2,816	$ 2,900	3.0%	VHCANADA	$ 685	$ 699	2.0%
Winnipeg	CAD	Y/Y1	$ 1,656	$ 1,706	3.0%	VHCANADA	$ 706	$ 687	-2.7%

Table L-2: Inbound AC Published Airfares to Kelowna (August 1999 versus August 2000)

Origin by Region & City	Curr.	Fare Basis	Economy (Return) Aug-99	Aug-00	%	Excursion (Return High Season) Fare Basis	1999	2000	%
USA									
Chicago	USD	Y/Y1	$ 2,268	$ 2,336	2.9%	V21NR	$ 588	$ 645	9.7%
Los Angeles	USD	Y/Y1	$ 938	$ 966	3.0%	V21NR	$ 376	$ 390	3.7%
San Francisco	USD	Y/Y1	$ 824	$ 850	3.2%	V21NR	$ 446	$ 470	5.4%
Canada									
Calgary	CAD	Y/Y1	$ 700	$ 680	-2.9%	VW7RBST	$ 274	$ 282	2.9%
Halifax	CAD	Y/Y1	$ 3,372	$ 3,474	3.0%	VHCANADA	$ 979	$ 1,085	10.8%
Montreal	CAD	Y/Y1	$ 2,988	$ 3,078	3.0%	VHCANADA	$ 820	$ 829	1.1%
Toronto	CAD	Y/Y1	$ 2,842	$ 2,926	3.0%	VHCANADA	$ 808	$ 814	0.7%
Winnipeg	CAD	Y/Y1	$ 1,736	$ 1,788	3.0%	QHSKYRDR	$ 558	$ 769	37.8%

Table L-3: Inbound AC Published Airfares to Smithers (August 1999 versus August 2000)

Origin by Region & City	Curr.	Fare Basis	Economy (Return) Aug-99	Aug-00	%	Excursion (Return High Season) Fare Basis	1999	2000	%
USA									
Chicago	USD	Y/Y1	$ 2,368	$ 2,456	3.7%	V21NR	$ 878	$ 916	4.3%
Los Angeles	USD	Y/Y1	$ 2,972	$ 3,014	1.4%	V21NR	$ 943	$ 983	4.2%
San Francisco	USD	Y/Y1	$ 1,758	$ 1,834	4.3%	V21NR	$ 842	$ 879	4.4%
Canada									
Calgary	CAD	Y/Y1	$ 1,382	$ 1,420	2.7%	QHSKYRDR	$ 609	$ 577	-5.3%
Halifax	CAD	Y/Y1	$ 3,886	$ 4,128	6.2%	QHSKYRDR	$ 1,711	$ 1,823	6.5%
Montreal	CAD	Y/Y1	$ 3,524	$ 3,736	6.0%	QHSKYRDR	$ 1,211	$ 1,301	7.4%
Toronto	CAD	Y/Y1	$ 3,324	$ 3,486	4.9%	QHSKYRDR	$ 1,168	$ 1,202	2.9%
Winnipeg	CAD	Y/Y1	$ 2,372	$ 2,542	7.2%	QHSKYRDR	$ 987	$ 1,058	7.2%

Table L-4: Add-on Airfare Comparisons - Gateway to Smithers (August 1999 versus August 2000)

Origin by Region & City	Curr.	Economy (Return) Fare Basis	Aug-99	Aug-00	%	Excursion (Return High Season) Fare Basis	1999	2000	%
Asia									
Hong Kong	CAD	Y2	$ 342	$ 342	0.0%	B*****	$ 205	$ 205	0.0%
Tokyo	CAD	Y2	$ 342	$ 342	0.0%	B*****	$ 205	$ 205	0.0%
Europe									
Frankfurt	CAD	YR	$ 346	$ 346	0.0%	******	$ 162	$ 162	0.0%
London	CAD	******	$ 214	$ 214	0.0%	******	$ 162	$ 162	0.0%

Table L-5: Published AC Arbitraries from the Gateway to Kelowna Airports (August 1999 versus August 2000)

Origin by Region & City	Curr.	Economy (Return) Fare Basis	Aug-99	Aug-00	%	Excursion (Return High Season) Fare Basis	1999	2000	%
Asia									
Hong Kong	CAD	Y2	$ 176	$ 176	0.0%	B*****	$ 105	$ 105	0.0%
Tokyo	CAD	Y2	$ 176	$ 176	0.0%	B*****	$ 105	$ 105	0.0%
Europe									
Frankfurt	CAD	YR	$ -	$ -	-	******	$ 162	$ 162	0.0%
London	CAD	******	$ 162	$ 162	0.0%	******	$ 162	$ 162	0.0%

Appendix M:
IATA BSP International Average Airfare Data

Appendix M: IATA BSP International Average Airfare Data

Figure M-1: Changes in Average Fares Sold to Asia Pacific, South Pacific and European Markets from Canada

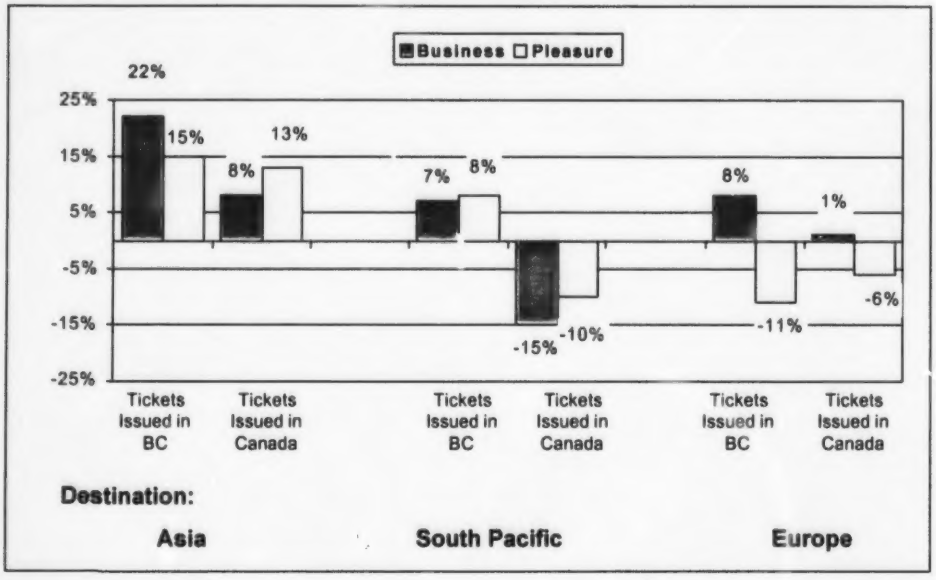


Figure M-2: Changes in Avg Fares to Mexican, C & S American Mkts from Canada

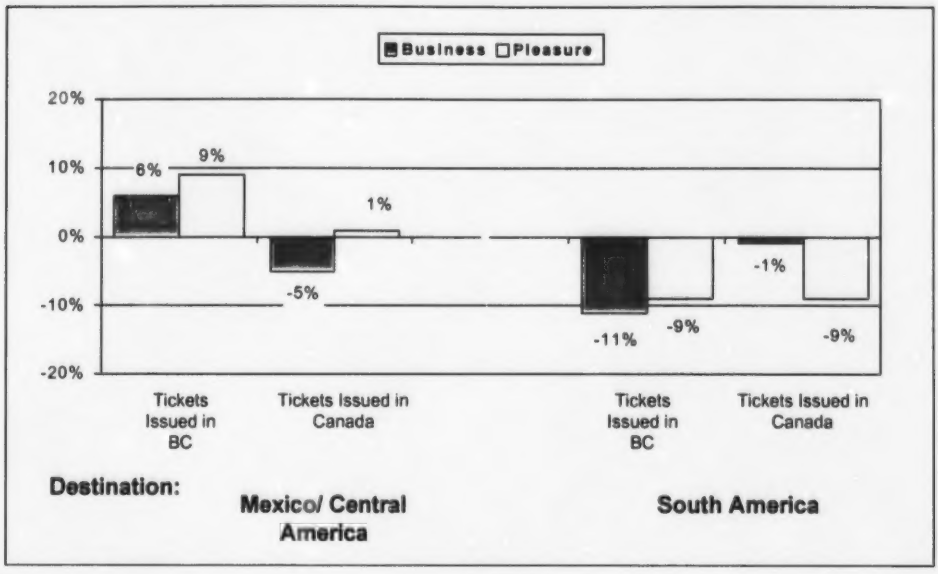
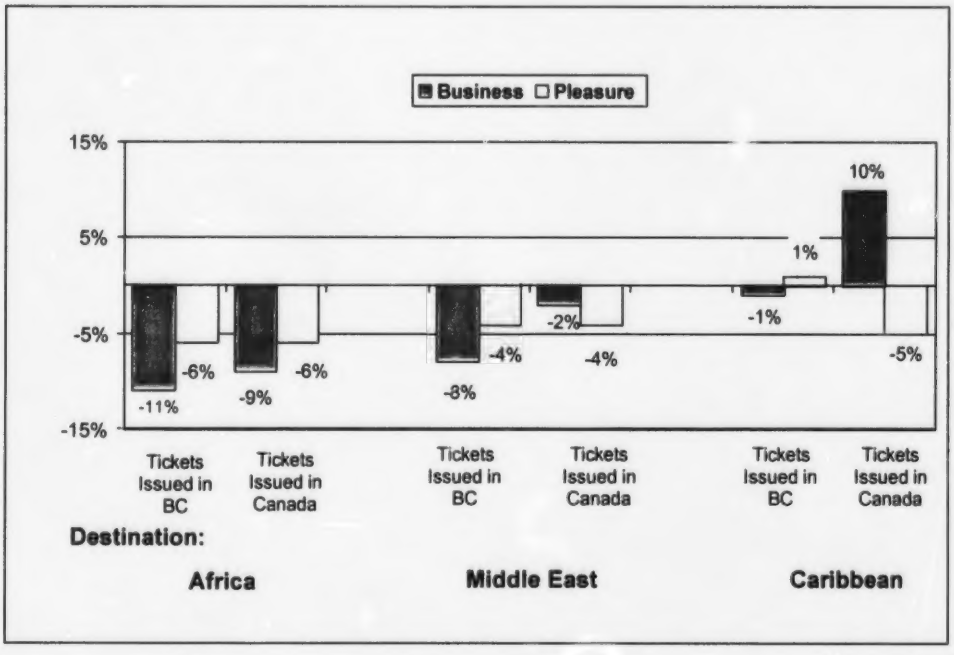


Figure M-3: Changes in Average Fares Sold to African, Middle Eastern and Caribbean Markets



Appendix N:
Glossary

Appendix N: Glossary

Airline yield: A measurement of unit revenue by the average fare per mile or kilometre.

Airport Capital Assistance Program: A program developed by the Transport Canada to assist regional/local airports, not owned or operated by the federal government, in financing capital projects related to safety, asset protection and operating cost reduction. The program began April 1, 1995 as part of the National Airports Policy.

Alliances: An agreement between airlines developed to increase the number of markets a carrier can offer service to its customers on another carrier's flight. Some examples include:

Single operator alliances: An agreement between two carriers where one airline sells tickets under its own code on another carrier. For example, Canadian Airlines flies from Nagoya, Japan to Vancouver and, before the merger, Japan Airlines was able to sell tickets on this flight under its own airline code.

Shared frequency alliances: An agreement between two carriers where both carriers sell seats on each other's flights. For example, until recently, Air Canada and EVA each flew three times per week between Taipei and Vancouver, with each selling seats on the other's flights.

Meeting point alliances: An agreement between two carriers where each carrier sells seats on the other's flight that meets at the same location. For example, Canadian Airlines would fly from Vancouver to Honolulu and Qantas would fly from Honolulu to Sydney. Each sold seats on the other's flights, allowing each to offer daily through services.

Alternate city alliances: An agreement between two carriers where each carrier sells seats on the other's flight that leave from alternate locations. For example, until recently, Canadian Airlines flew from Calgary to the U.K. while British Airways flew from Vancouver to the U.K. Each put its code on the other's flights.

Cross code-sharing alliances: An agreement between carriers where carriers put their codes on each other's flights. For example, Canadian and Cathay Pacific would put their codes on each other's flights in the same markets.

Global alliances: An alliance type that involves many different airlines in an effort to achieve dramatic increases in market penetration by linking the services of many carriers together. Star Allianace, **one**world and SkyTeam are examples of different global alliances.

Arbitraries: A fare published for use only in combination with other fares from, to or through a specified point.

Available Seat Miles (ASM's): A measure of air transport passenger capacity equal to the total number of seats offered multiplied by the distance flown. ASM's can be measured for a single flight, airline or industry wide.

Bilateral air service agreement: A government negotiated agreement between two countries governing the conduct of trade in international air services. Stipulations regarding market access, routes, freedoms granted, capacity, flight frequency and methods for determining tariffs may be included in such agreements.

Cabotage: The right of a foreign owned airline(s) to provide commercial domestic air services in a host country.

Tag-end cabotage: This allows U.S. carriers to pick up some internal Canadian traffic as an extension of a transborder flight. For example, a U.S. carrier would pick up traffic in Chicago bound for both Toronto and Ottawa. After landing in Toronto, it could pick up Toronto originating passengers for Ottawa.

Right of Establishment Cabotage. This would require foreign carriers wishing to serve Canadian domestic markets to establish Canadian domiciled carriers. This is the approach used in Australia, where U.K. owned Virgin Airlines has established an Australian based carrier, Virgin Blue, which will soon be operating purely domestic Australian services. This "right of establishment" cabotage requires that domestic services in Australia are operated by Australian based and maintained aircraft with Australian crews and Australian support. Thus, this form of cabotage is job creating.

Domestic Code Share Cabotage. This would allow a U.S. (or U.K. or other foreign) carrier to sell tickets for domestic service but such service must be provided by a Canadian owned carrier. A hypothetical example would be marketing services under American Airlines' brand which would be a collection of services by various small regional and charter carriers.

Modified Sixth Freedom (or Over-the-Hub Cabotage): This allows U.S. carriers to take Canadian passengers between Canadian cities via a U.S. hub. For example, a U.S. carrier would pick up traffic in Vancouver bound for both Chicago and Toronto. The Toronto passenger would be served by a through or connecting flight from Chicago to Toronto.

Pure Cabotage. This would be the most extreme form of cabotage, where U.S. (or U.K. or other foreign) carriers would operate flights within Canada with their own foreign aircraft and crews.

Charter (Non-scheduled) services: Flights performed for remuneration on an irregular basis. Charter services are generally not listed in a published timetable and can be provided by both scheduled and non-scheduled carriers. Charter services can be used by tour operators and for group travel.

City pair: An air route linking two cities.

Code Sharing: A marketing arrangement between two or more airlines allowing a connecting flight on two or more different carriers to be displayed on the Computer Reservation System (CRS) as a single carrier. Carriers who code-share have a higher priority on the CRS because of their 'single carrier' status.

> *Third country code-sharing:* A type of code sharing agreement where carriers code share beyond the country of origin between a second country and carriers of a third country and the sale takes place in the country of origin.

Computer Reservation System (CRS): The electronic data management system used by airlines to control the price and booking status of each seat on each flight. See *Global Distribution Systems (GDS).*

Consolidators: These are often tour operators and/or travel agents, who purchase airline seats at bulk discount rates. The discount tickets are then distributed to consumers through the travel agency network with an additional mark-up added by the agency.

Coterminalization: The right to serve any two or more points on one flight. For example, this is where a U.S. carrier would use a Canadian city to transfer passengers or cargo between its flights. This is not allowed under the Open Skies agreement between Canada and the U.S.

Feed traffic/carriers: Traffic and carriers that supply passengers or cargo to a hub.

Fifth freedom rights: Rights of passage granted to designated airlines to fly from one foreign country to another foreign country provided that the flight originates or terminates in the home country.

Gateway: An important international airport where passengers and freight come in and continue on to other domestic, transborder and international destinations.

> *Beyond-the-Gateway:* Travel through a gateway to another destination.

GATS: The General Agreement on Trade and Services (GATS) governs trade between nations. However, air transport is largely excluded from the current provisions of the GATS.

Global Distribution Systems (GDS): Airfare information is distributed to global distribution systems (GDS) such as Amadeus/System One, Galileo International, Sabre, Worldspan and computer reservation systems (CRS). See *Computer Reservation Systems (CRS).*

Hub and spoke system: An airline operating structure where airport(s) centrally located act as the centre of the operation. Air passengers and/or freight is collected from a number of 'spokes' or feeder points and consolidated at the hub point before redistribution beyond the hub to connect with other flights.

Interlining: An agreement (interline agreement) between one airline to carry passengers or freight on behalf of another airline. Carriers involved in an interline agreement are also

required to honour tickets of the other carriers in the agreement. The identity of each carrier is maintained.

> *Interline connection fares:* A fare which applies for carriage over the lines of two or more carriers. The fare is published as a single amount.

Load Factor: A percentage measure of actual airline capacity as a proportion of total airline capacity. Passenger load factor equals the total number of passengers carried over the total available capacity for an airline. Load factors can be measured for a single flight, airline or industry wide.

Multilateral Agreements: An agreement signed by airlines, governments and service organisations for the purpose of establishing consistent practices and procedures of mutual interest.

Open Skies: An agreement to remove restrictions on the ability of airlines to operate in two countries. For example, Canada and the U.S. signed an "open skies" agreement in 1995. The agreement allows a U.S. carrier to fly from any point in the U.S. to any point in Canada.

Proration / Revenue Division: A set of rules established to divide airline revenue between airlines participating in the carriage.

Revenue Passenger Miles (RPM): A traffic statistic that measures the demand for air passenger travel services. A RPM is equal to the number of paying passengers on an aircraft times the number of miles flown. RPM can be measured for a single flight, an airline or industry wide.

Seat Capacity: The number of available revenue seats for sale on an aircraft, air carrier, or by route/system over a specified period of time.

Scheduled Service: Any airline offering regular air service according to a timetable.

Sixth-freedom: The right of a carrier to carry traffic from one foreign country to another foreign country via that carrier's home country. For example, a Canadian carrier could connect U.S. travellers to Europe and Asia through a Canadian destination.

Slots: The right to land/take off at an airport at a specified time. The large number of aircraft movements at some airports can make slot availability scarce and slot access very valuable.

Third level carriers: A carrier who operates for a regional airline (second level carrier), who in turn operates for a major carrier. For example, Central Mountain Air operates for AirBC who is connected with Air Canada the first level carrier.

Through Fares: A published airfare which applies to between two points where there is no non-stop direct air service.

VFR: Visiting friends and relatives.